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World Business Newspaper THURSDAY MARCH 21 1996

US regulators take fizz from brewer's Internet share offer

Spring Street, a young, Manhattan-based brewing company, voluntarily suspended trading in its shares yesterday after the Securities and Exchange Commission requested that trading be halted pending further review. The company launched its electronic trading system two weeks after completing the first ever public offering over the Internet, in which it raised $1.6m from 3,500 investors. Page 12

Deutsche Telekom, Europe's largest telecoms operator, launched an unprecedented publicity campaign aimed at winning over millions of German shareholders, but the move came amid signs that company morale had fallen to new depths. Page 14

Profits surge fivefold at SCA: SCA, Europe's leading pulp and paper group, rounded off a record year for Swedish forestry by reporting a fivefold surge in 1995 profits from SKr1.06bn to SKr5.73bn ($855m). Page 13; Lex, Page 12

Aérospatiale, the French partner in the Airbus consortium, welcomed the German government's call for Airbus to incorporate itself into a regular company this summer and to launch the 550-seat A3XX airliner as a challenge to Boeing. Page 2

Santer calls leaders to account: Jacques Santer, the European Commission president, said it was time EU leaders made good on spending commitments, and took the unusual step of presenting a list for public consumption at a Brussels news conference. Page 2

Juppé acts on end to call-up: Prime minister Alain Juppé called on the French parliament to back the government's "historic" decision to phase out a century of military conscription and create a slimmed-down, fully professional armed force by 2002. Page 2

Germany stands by "alliance for jobs": German economics minister Günter Rexrodt reaffirmed support for the trade union inspired "alliance for jobs" after a leading employers' representative declared that the concept as first developed by the powerful IG Metall union was "dead". Page 2

SmithKline Beecham and Coca-Cola are arguing over what players will drink at this Sunday's Coca-Cola Cup final in the UK. SmithKline Beecham, owner of Lucozade Sport, says it has the exclusive rights as official drinks supplier to the Premier League and to Sunday's two teams, Aston Villa and Leeds United, but Coca-Cola is adamant that Coke will be the only beverage on show. New TV deal on soccer in Italy, Page 2; Railway's decision sparks anger, Page 7

Lehman Brothers, the investment bank, reported first-quarter results which showed net income of $104m, an increase from $45m in the same period a year ago and from $80m in the previous quarter to end November. Page 16

General Cable buy behind Wassall rise: Wassall, the UK-based conglomerate, demonstrated the success of its General Cable acquisition 18 months ago, by unveiling a 32 per cent increase in annual profits to £55.1m ($84m) before tax and exceptional items. Page 18

Cars help boost retail sales in US: The US commerce department said American consumers returned to car showrooms last month, boosting motor sales by 2 per cent and helping lift overall retail sales by 0.8 per cent. Page 6

Seat cuts loss: Seat, the Spanish subsidiary of Volkswagen which recently received a controversial injection of state aid, said it was on course to break even next year after reducing losses by 62 per cent to Pta11.29bn ($90.9m) in 1995. Page 14

Winnie Mandela loses claim: Winnie Mandela lost her claim to half the estate of her former husband, South African president Nelson Mandela, because she failed to turn up or send representation to the court hearing in Johannesburg. Later she threatened to contest the divorce at a higher court after Mr Mandela offered her an out-of-court settlement.

Fears grow over US computer sales: Shares in US personal computer manufacturers were battered as Digital Equipment warned of a slowdown in North American PC sales in the current quarter, which would affect its earnings overall. Digital shares dropped 16 per cent by $10¾ to $56¼. Page 13

Names' leader protests at US lawsuits: Legal action being pursued by US state securities regulators on behalf of lossmaking Lloyd's of London Names sparked an angry reaction from a leading Names' representative in the UK who said his members were "horrified" at the possible consequences of the cases brought against Lloyd's in a number of states. Page 7

■ STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	5,631.94	(-37.57)
NASDAQ Composite	1,100.76	(-11.74)
Europe and Far East		
CAC40	1,969.79	(+2.59)
DAX	2,485.90	(-7.35)
FT-SE 100	3,685.4	(-7.6)
Nikkei	closed	

■ US LUNCHTIME RATES	
Federal Funds	5⅜%
3-mth Treas Bills: Yld	5.155%
Long Bond	91⅜
Yield	6.667%

■ OTHER RATES		
UK: 3-mo Interbank	6⅛%	(6⅛%)
UK: 10 yr Gilt	96⅞	(95⅞)
France: 10 yr OAT	104.22	(103.9)
Germany: 10 yr Bund	96.57	(96.07)
Japan: 10 yr JGB	closed	(98.58)

■ NORTH SEA OIL (Argus)		
Brent 15-day (May)	$18.82	(18.845)

■ GOLD		
New York: Comex		
(Apr)	$396.5	(396.0)
London:		
close	$395.0	(395.35)

■ DOLLAR		
New York: lunchtime		
£	1.5385	
DM	1.4735	
FFr	5.0485	
SFr	1.191	
Y	106.325	
London:		
£	1.5364	(1.5323)
DM	1.4775	(1.4762)
FFr	5.0594	(5.047)
SFr	1.194	(1.1911)
Y	106.57	(106.315)

■ STERLING		
DM	2.27	(2.2619)
Tokyo:		Y closed

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lwl30.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kč60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L70,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

Pressure on British beef exports expected after 'mad cow' disease findings

Evidence links BSE to humans

By Clive Cookson and Deborah Hargreaves in London and Caroline Southey in Brussels

The UK government yesterday published the first official evidence of a probable link between BSE or mad cow disease and its human equivalent, Creutzfeldt-Jakob disease.

At the same time, the health and agriculture ministers took emergency action to reassure consumers about the safety of British beef and to undertake new research into BSE and CJD. However the meat trade forecast a huge drop in beef consumption.

In Brussels the European Commission said that it would review controls on the sale of beef if the new evidence suggested the European Union's present regime, designed to prevent the sale of infected meat, did not protect consumers.

But Brussels is likely face strong pressure from other member states, notably Germany, to tighten controls on British beef exports. EU veterinary experts are expected to discuss the UK's evidence at a scheduled meeting on Friday.

The CJD Surveillance Unit in Edinburgh said it had found a new strain of the fatal brain disease in 10 recent CJD cases in teenagers and young adults under the age of 42. The scientists said they might have been infected by eating beef during the first phase of the BSE epidemic between 1986 and 1989, when the UK banned the sale of brains and other potentially infectious offal.

"There remains no scientific proof that BSE can be transmitted to man by beef," Mr Stephen Dorrell, UK health secretary, told the House of Commons, "but the [scientific advisory] committee have concluded that the most likely explanation at present is that these cases are linked to exposure to BSE before the introduction of the specified bovine offal ban in 1989."

Mr Douglas Hogg, agriculture minister, announced two new measures yesterday to tighten controls on BSE. All beef from animals aged over 30 months must be deboned before sale. And the use of all meat and bonemeal in pig and poultry feed is banned; it was banned for use in cattle and sheep feed in 1988.

With these new precautions in effect, "the risk from eating beef is now likely to be extremely small", said the Spongiform Encephalopathy Advisory Committee – the UK government's main group of independent scientific and medical advisers on BSE and CJD.

Professor John Pattison, chairman of the advisory committee, said there was too little evidence to make any predictions about the number of people, if any, who would catch CJD in future.

The European Commission is unlikely to consider the single step of banning UK exports with-

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Evidence grows, Page 7
Editorial Comment, Page 11

Brazil to bail out leading bank after record loss

By Angus Foster in São Paulo

Brazil's government yesterday announced an R$8bn (US$8.2bn) bail-out of Banco do Brasil, Latin America's biggest bank, after it announced losses of R$4.25bn last year, the biggest in the country's corporate history.

Banco do Brasil, which is 51 per cent controlled by the government, blamed the losses on bad debt provisions and adverse currency swings.

The bank announced a complete overhaul of its credit policies as well as investments in automation to compete against its more agile, private sector rivals.

The bank's losses cast more doubt on the resilience of Brazil's banks, while the provision of assistance will further strain the government's budget deficit.

Brazil's government will provide R$5.1bn of the capital injection, in a new share issue scheduled for May. The government will also guarantee the remainder of the money if private shareholders do not want to subscribe.

Mr Pedro Parente, a finance ministry official, said the injection was needed to stop the bank recording negative net assets this year.

Net assets have collapsed from R$9.42bn in 1993 to R$3.47bn at the end of last year as the bank's problems mounted. "These measures are extremely important and represent the government's decision to ensure that Banco do Brasil can continue to act with the force it always has," he said.

Brazil's banking system has been in trouble since 1994 when the introduction of new currency brought inflation down from more than 40 per cent a month to less than 2 per cent a month so far this year.

Banks relied on the huge interest rate spreads generated by high inflation to make profits, and several have been unable to react quickly to the new, low-inflation environment. Several have been hit by liquidity crises and two other state-owned banks had to be bailed out by the government.

Banco do Brasil's plight is even more complex because of its political role. In the past, it was used to finance lossmaking state companies and agriculture. Bad debts to these sectors were blamed for the bank's credit problems.

The bank said it made provision for bad debts of R$3.78bn last year and recorded currency losses of R1.33bn because of the appreciation of the Real.

Personnel costs were inflated by a voluntary redundancy programme which saw staff numbers fall by 25,000 people to 94,000. Among other cost-cutting, about 100 of the bank's 3,000 branches were closed during the year.

Bail-out revives doubts, Page 6

A US naval air crewman keeps watch as the USS Independence conducts training exercises in the South China Sea some 200 nautical miles south-east of Taiwan. Tension between the governments in Beijing and Washington has been fuelled by the largest build-up of US forces in the area since the Vietnam war. The US navy has been deployed to monitor Chinese military manoeuvres intended to intimidate Taiwanese voters ahead of presidential elections on Saturday. Picture: Reuter

Russian and US oil groups discuss strategic alliance

By Robert Corzine and John Thornhill in Moscow

Lukoil, Russia's biggest privatised oil concern, has begun negotiations with Arco, the Los Angeles-based US oil group, to forge a broad strategic alliance to undertake big international development projects.

A Lukoil-Arco alliance would be the first strategic link to bring together an asset-rich Russian company and a financially strong western partner and could become the model for further international partnerships.

Mr Vagit Alekperov, president of Lukoil, said yesterday the company had reserves equalling those of the Anglo-Dutch Shell group, the western world's biggest energy company, but lacked the financial means to carry out plans to expand outside Russia.

Lukoil, which is Russia's most highly valued company, has been unable to raise substantial capital on the country's poorly developed capital markets. But it plans to raise more than $100m through an international convertible issue on March 29 and has also begun preliminary work on a possible Eurobond issue.

Despite these plans, Mr Alekperov said Lukoil would need western oil companies to help finance its most ambitious projects in the Caspian Sea and north Africa. The company aims to have up to 15 per cent of its production outside Russia by the end of the decade.

Arco last year bought about 6 per cent of Lukoil's shares via a convertible bond issue for $250m. A more formal strategic alliance with Lukoil would help it overcome its poor record of replacing its reserves.

Earlier this year, Arco announced a $2bn investment in the Algerian oil industry, but it still has large cash reserves to fund further international expansion.

Arco's approach in dealing with Russian companies contrasts with that of most western oil companies which are notably more cautious in the run-up to presidential elections in June.

Lukoil, which has been the most aggressive and progressive Russian oil company to have emerged from the wreckage of the Soviet planned economy, has strongly allied itself with President Boris Yeltsin.

But Mr Alekperov said he was certain Lukoil would survive as an independent entity even if the Communists won the elections.

"I am confident that our organisation has demonstrated its viability. We have stabilised oil production and have earned the government hard currency resources," he said.

He added: "They cannot replace us with a new centralised ministry of energy. We have too many shareholders receiving dividends."

The first co-operative project between Arco and Lukoil may be a large investment to exploit the vast oil reserves under the Caspian Sea.

Brussels suspects ABB is one leader of 'cartel'

By William Lewis in London and Hugh Carnegy in Stockholm

Investigators at the European Commission suspect ABB, the Swedish-Swiss engineering multinational, to be one leader of an alleged Europe-wide price-fixing and market-rigging cartel.

ABB, voted Europe's most respected company for the past two years by top European executives, is suspected to be a prominent member of an alleged cartel operating in the $1bn European market for district heating.

District heating is becoming increasingly popular in continental Europe as a method of providing communal heating in offices and flats.

Commission investigators believe ABB may have been involved with five other companies in fixing prices and dividing up market share in several European markets including Germany, the Netherlands, Austria, Sweden and Denmark.

A Financial Times investigation has uncovered a number of attempts by the suspected cartel – referred to by its members as "the circle" – to neutralise the threat posed by Powerpipe, a Swedish district heating company which operates outside of the "circle" and has been taking business away from cartel members. Commission investigators have carried out raids at the suspected companies and "was able to impound a considerable number of written documents", according to letter written by Commission investigators and passed to the Financial Times.

The Commission has grounds to suspect that Powerpipe "which does not belong to the suspected cartel, was subject to reprisals by the cartel members," the letter says. Documents seized by investigators show that "members of the suspected cartel possibly threatened a collective boycott on both Powerpipe's suppliers and customers, in order for them to break their business connections with Powerpipe".

The moves against Powerpipe by members of the suspected cartel followed the Swedish compa-

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Belgian budget may miss deficit target

By Neil Buckley in Brussels

Belgium is unlikely to be able to reduce its budget deficit to 3 per cent of GDP this year, as the government had planned, to put the country on track to be one of the founder members of the single European currency, finance ministry officials believe.

Slowing growth means Belgium faces a tough budget round this year to ensure it meets the 3 per cent target in 1997 – one of the convergence criteria for monetary union.

The fears have emerged as Mr Jean-Luc Dehaene, prime minister, this week began discussions with employers and trade unions on proposals to limit wage increases for 1997 and to halve Belgium's 14 per cent unemployment rate in five to six years.

Belgium based its 1996 budget last autumn – which aimed to reduce the deficit ratio from 4.5 per cent to 3 per cent – on a growth forecast of 2.2 per cent. That forecast was revised downwards in January to 1.6 per cent, but officials believe the new figure may still be optimistic, given the economic slowdowns in neighbouring France and Germany.

Belgian economists are forecasting growth of between 1 and 1.5 per cent – likely to result in a sizeable budgetary shortfall. The finance ministry is still confident of meeting the deficit target in 1997 but officials concede this year's budget negotiations will be "very difficult".

A government austerity programme, including a three-year wage freeze and cuts in health and social spending, has already provoked sporadic strikes and demonstrations among public sector workers.

Belgium should meet three of the five convergence criteria – those relating to inflation, interest rates and exchange rate fluctuations – without difficulty. But, with the highest debt to GDP ratio of any EU member last year at 133.7 per cent, it has little hope of reducing debt to 60 per cent of GDP, one of the other conditions.

It is therefore counting on meeting the remaining criterion, reducing the budget deficit.

By fulfilling four out of five conditions, and showing its debt ratio is on a firmly downward trend, Belgium believes it will still be accepted into the first group of countries proceeding to full monetary union.

The government hopes to reach agreement with trade unions and employers this spring on capping 1997 salary increases to prevent a wage explosion when the pay freeze expires in December.

It wants to limit wage rises to the average of those of its main trading partners, Germany, France and the Netherlands.

But unions insist wage moderation should be balanced by a programme of job creation, to reduce the jobless total of 494,682 out of a workforce of just over 3m.

The government is likely to suggest linking a reduction in employers' social contributions – currently among the highest in Europe – to job creation.

Reducing the social burden on employers will form part of a wider government review of Belgium's over-stretched social security system, including the generous pension arrangements for the country's thousands of civil servants.

Santer calls leaders to account

Lionel Barber on why the EU president wants to put a stop to a list of broken promises

There has always been a "now they say it, now they don't" quality to European summit declarations. Promises pile up, but rarely are EU leaders held to account if nothing happens.

Mr Jacques Santer, the European Commission president, ended the conspiracy of silence yesterday. He said it was time EU leaders made good on spending commitments, and took the unusual step of presenting a list for public consumption at a Brussels news conference.

The Santer wish-list contains familiar, if long-stalled projects such as the showpiece trans-European communications networks; but it also covers funding for the Northern Ireland peace initiative of Ecu100m ($128m); food aid for the Caucasus (Ecu70m); financial aid to Armenia and Georgia (Ecu170m); and extra posts inside the Commission for Austria, Finland and Sweden, the EU newcomers (Ecu23m).

Behind Mr Santer's action yesterday lies his determination to reallocate resources inside the EU budget – possible because the switchover from price supports to direct income payments to farmers is expected to generate at least Ecu4bn savings in the EU farm budget between 1997 and 1999.

But EU member states, slashing spending to reduce deficits to qualify for monetary union by 1999, are insisting that savings are reimbursed to national budgets rather than left to the spending discretion of the Commission and the European Parliament.

Mr Santer, a former finance minister, is sympathetic to the call for budget discipline but is offering to hand back only half the likely savings. He wants the rest for his "confidence pact", his sketchy initiative to restore employment and growth which amounts to the first risk he has taken since he became president of the Commission 15 months ago.

Mr Santer confirmed yesterday that he intends to take his plea for a "confidence pact" to next week's EU summit in Turin, whose official purpose is to launch the inter-governmental conference on the future of the Union.

The centrepiece of the Santer growth initiative is a renewed push on the TENs, the multi-billion dollar road, rail, and telecommunication projects which have become a symbol for EU public investment as well as a tool to strengthen communications links inside the single market.

Arguments over funding have dogged the TENs since 1993. Mr Jacques Delors, Mr Santer's predecessor, failed to persuade EU leaders to support proposals for off-budget financing through "Brussels bonds". Now Mr Santer is seeking to bridge the Ecu1.7bn financing gap for 14 priority projects through a request for Ecu1bn in the hope that private money will follow. The Commission president's argument – as he repeated again and again yesterday – is that it is time for EU leaders to put their money where there mouths are. Ever since the December 1994 summit in Essen, which he attended as Luxembourg prime minister, EU leaders have committed themselves to the TENs projects without ever quite finding the means, chiefly because of opposition from EU finance ministers.

"It is a question of credibility," says one senior Commission official.

"We must close the gap between words and deeds. Otherwise there can be no accountability in the Union."

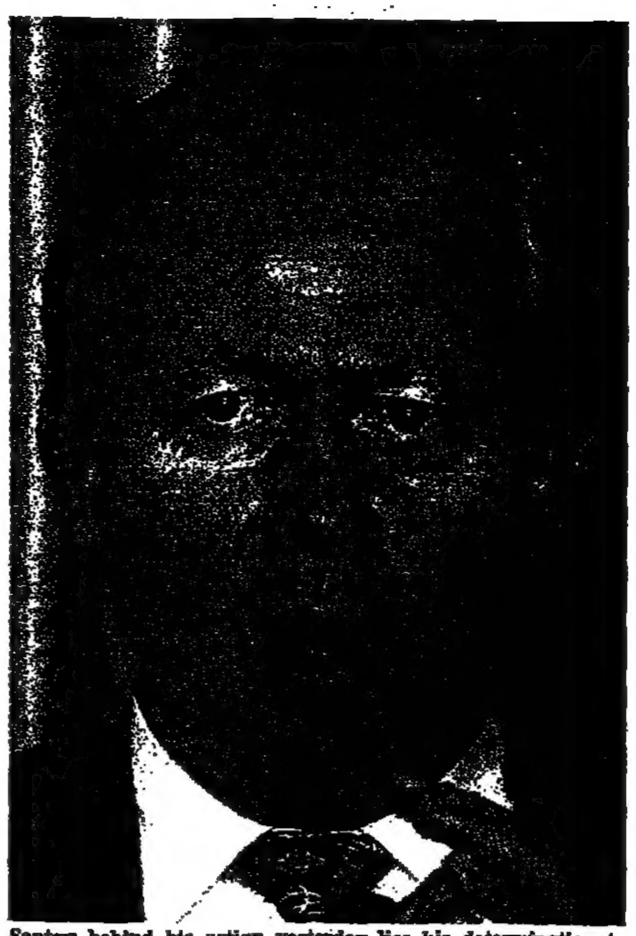
Yet it is clear that Mr Santer is fighting a broader institutional battle as the Commission struggles to hold political ground against member states. This is one reason why he has singled out a request for Ecu700m extra financing for EU research and development, and an extra Ecu40m for programmes to bolster small and medium-sized enterprises. "The Commission is desperate to stay in the macro-economic game," acknowledges one official.

Mr Erkki Liikanen, the EU budget commissioner, made an additional point yesterday. The Commission needs to clear its books in time for the broader debate over budget priorities which is needed ahead of the prospective enlargement to central and eastern Europe, around the turn of the century.

By making the EU agriculture budget more flexible, Mr Liikanen hopes to avoid ruinously expensive price supports for farm-intensive economies such as Poland and Hungary. The alternative support will come through the much cheaper mechanism of rural development aid.

In the last resort, Mr Santer – known as the Man who never says No – is gambling that EU leaders will find his request reasonable enough to accept. To this end, he has ordered a freeze on the creation of new posts at the Commission for 1997, the first halt to employment creation in years in Brussels.

If EU leaders still turn him down, the public can at least draw its own conclusions. As he says: "We will at least know where responsibility lies."



Santer: behind his action yesterday lies his determination to reallocate resources inside the EU budget Tony Andrews

Brussels starts EU-wide taxation talks

By Caroline Southey in Brussels

The EU Commission yesterday launched a new offensive on the need for an EU-wide approach to taxation, warning lack of progress was undermining the battle against unemployment and threatening effective implementation of the single market.

The Commission's attempts to kick-start a debate on the question of co-ordinating tax regimes across the EU follows years of acrimonious debate and little progress on the issue.

The Commission has 18 proposals on the table for consideration by the council of ministers and has withdrawn 30 because of lack of progress.

Taxation issues have to be agreed unanimously by the council of ministers: member states have traditionally jealously guarded the sovereign right to set tax rates. The Commission moves cautiously on the question of harmonising taxes, advocating a "more closely co-ordinated approach to taxation".

It is much more aggressive in its analysis of the problems created by past delays in adopting common positions on tax issues, arguing urgent decisions are necessary if problems created by a lack of co-ordination are to be addressed.

The Commission consultation paper prepared by Mr Mario Monti, internal market Commissioner, and Mr Yves-Thibault de Silguy, commissioner for economic and financial affairs, is due for discussion by economic and finance ministers next month.

Mr Monti argued that decisions on taxation were imperative if the EU was to be successful in fighting unemployment. The paper argues the tax burden as a proportion of GDP has shifted to labour as taxes on more mobile bases, such as capital, have been eroded; between 1980 and 1993 the implicit tax rate on labour for the EU grew 20 per cent, while the rate for capital decreased by over a tenth.

"The burden on labour cannot be made heavier if we are not to worsen the negative effects on labour costs and employment," Mr Monti said, pointing out member states have been drawn into competition on taxes on capital.

Mr Monti's second line of attack was the negative affect of indecision on the single market. "Considerable progress needs to be made in eliminating distortions in the single market, in the fields of direct and indirect taxation," he said.

The Commission paper argues a fully functioning single market requires:

- a simplified VAT system that treats intra-Community transactions as equal to domestic ones.
- progress in approximating excise duty rates where this was justified by the freedom of movement for goods.
- adapting personal taxes so they did not discriminate against non-resident taxpayers and scrapping tax disadvantages linked to cross-border financial transactions such as insurance premiums, pensions and mortgage payments.
- reducing discrimination against subsidiaries in other member states by scrapping double tax on interest and royalty payments.

Juppé acts on end to call-up

By David Buchan in Paris

Prime Minister Alain Juppé yesterday called on the French parliament to back the government's "historic" decision to phase out a century of military conscription and create a slimmed-down, fully professional armed force by 2002.

Launching a National Assembly debate, Mr Juppé announced he was asking both houses of parliament for their views on what, if anything, should replace the 10-month military draft, as well as asking the country's 36,000 mayors to organise local hearings on the issue.

The government is organising the nearest thing to a referendum, which President Jacques Chirac said last month was not constitutionally possible on an issue relating to defence. The main option being touted is a six-month national service for youngsters, mainly of a civilian nature, in the form of social work at home or humanitarian work abroad, but possibly in the gendarmerie, which is to get an enhanced domestic security role.

The government says it is open as to whether such service should be compulsory or voluntary. Despite his rhetoric about the need for a great national debate, Mr Juppé gave the impression of not really caring what the outcome is, making clear it would not affect the government's 1997-2002 military programme law to be presented to parliament in the summer.

This programme, aimed in President Chirac's words to produce "more efficient and less costly defence", is supposed to keep annual defence spending to FFr185bn ($36bn) – in constant 1995 francs over 1997-2002: FFr99bn for pay and operations and FFr86bn for equipment.

This represents no saving in pay, because although the army is to be reduced from 239,000 to 136,000, recruiting volunteers will cost more, but will entail less spending on equipment.

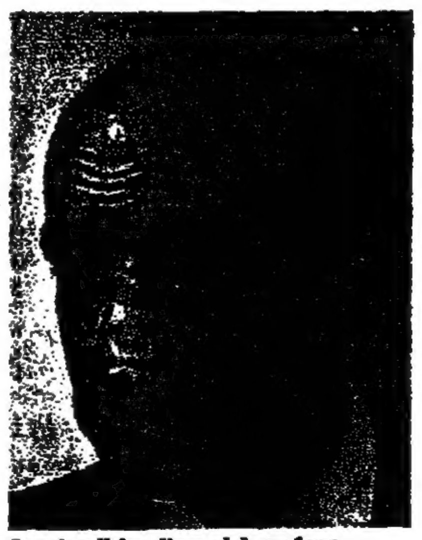
The Chirac reforms, designed to create a force of up to 60,000 professional troops that could be deployed quickly overseas, have raised fears of French presidents, on a whim, dispatching "expeditions" on foreign adventures.

Suggestions have also been made that the National Assembly should pass legislation to control presidential prerogatives in this area, rather as in the wake of Vietnam the US Congress did with its War Powers Act. But Mr Juppé yesterday dismissed fears France would indulge in unilateral military "expeditions".

The government strategy of "force projection" came in for criticism yesterday for inconsistency by its own backbenches. Mr Jacques Baumel, Gaullist vice-president of the Assembly's defence committee, wondered how such projection was possible if France pulled out of the Future Large Aircraft transport.

Mr Charles Millon, defence minister, confirmed yesterday there was no money in the new programme for the FLA, but he hoped for a cheaper alternative. Aérospatiale, the aircraft group, said it was discussing this with the French air force.

Unions in the navy's DCN shipyards and at the state-owned Giat tank-maker yesterday held protests over redundancies which they feel sure will accompany future defence industry restructuring.



Juppé: call for slimmed-down force

Backing on Airbus status

By David Buchan in Paris

Aérospatiale, the French partner in the Airbus consortium, yesterday welcomed the German government's call for Airbus to incorporate itself into a regular company this summer and to launch the 550-seat A3XX airliner as a challenge to Boeing.

"We are happy that the German government now shares the same thesis as the French government with regard to the A3XX," Aérospatiale said, pointing out that Mr Bernard Pons, the French transport minister, had urged such a move in February.

Aérospatiale said it had at one time been reluctant to change Airbus from a European partnership into a limited company, but was now "engaged, like all other Airbus partners, in a thorough examination of how to change its status".

Aznar party shifts stance on Spain's regional policy

By David White in Madrid

Spain's centre-right Popular party, trying to muster a parliamentary majority after its narrow election victory earlier this month, yesterday launched a fresh phase of negotiations with regionalist parties based on an adapted set of policy proposals.

Mr Rodrigo Rato, PP vice-secretary, said that by publishing the proposals the party aimed to reassure the Spanish public and financial markets that there was a firm basis for forming a stable government "within a reasonable time".

But with the new parliament due to convene next Wednesday, he would not set a target date for an agreement and said it was "still open" whether a pact would include other parties in the government.

The new talks follow tentative contacts between senior party figures immediately after the elections and talks on Sunday between Mr José María Aznar, the PP leader, and Mr Jordi Pujol, the Catalan regional president, whose party has a pivotal role.

The PP has had to jettison proposals which figured prominently in its election campaign – notably its plan to reform the penal code to ensure that convicted members of Eta, the Basque separatist organisation, serve their full sentences without remission.

The PP document marks a change of emphasis in its regional policy, promising "differentiation" between regions. This is aimed at satisfying demands by the mainstream Catalan and Basque parties for "historical nationalities" to be treated on a different basis from other regions, with a larger degree of home rule.

The PP hopes to strike a new deal on the financing of regional governments, giving them a share of responsibility in raising taxes. Mr Rato said there were "various technical formulas" for doing this.

The party has dropped the specific tax-reduction targets set out in its manifesto, which aimed at moving to a UK-style income tax structure with a maximum rate cut from 56 per cent to 40 per cent.

The negotiating document instead makes a vaguer commitment to "gradual reduction" of average income tax rates and social security contributions.

Rexrodt stands by jobs alliance with unions

By Peter Norman in Bonn

The German government yesterday reaffirmed its support for the trade union inspired "alliance for jobs" after a leading employers' representative declared that the concept as first developed by the powerful IG Metall union was "dead".

Mr Werner Stumpfe, president-elect of Gesamtmetall, the metal industry employers' federation, had insisted there was no way his members could create the 100,000 jobs demanded by IG Metall this year as a trade-off against wage restraint in 1997.

However, Mr Günter Rexrodt, the economics minister, countered that Germany's needs would not be met by nationwide agreements at the level of employers' federations and trade unions but by "many thousands of alliances", such as those at company level in which management and workers representatives would negotiate the conditions for hiring and firing people.

Meanwhile, with one in nine of the labour force officially unemployed, employers and unions representing 225,000 workers in the clothing industry announced the first sector-wide alliance for jobs.

In contrast to the IG Metall plan, they avoided any commitment to job creation. Instead, the employers agreed on annual wage increases of 1.5 per cent from May 1 in line with inflation. The textile and apparel workers union accepted more flexible working hours and agreed companies in difficulty could suspend the wage rise temporarily in return for job guarantees.

Mr Stumpfe yesterday put forward his own concept for job creation which centred on achieving a 20 per cent cut in unit labour costs. In a speech to industrialists in the Ruhr city of Duisburg, he said half the reduction in costs should be achieved by companies through better organisation. The state should contribute a quarter of the cost reduction by freeing social security funds of burdens heaped on them as a consequence of German unification. The remaining quarter should come from employees through such measures as cuts in their paid free time.

EUROPEAN NEWS DIGEST

Italian telecom tariffs cut

Telecom Italia, Italy's domestic telephone company, yesterday surprised consumers, shareholders and the telecoms ministry by cutting phone charges to Britain, the Americas, Hong Kong and Taiwan. Only two months ago the ministry froze a wider plan to reform tariffs – including increases in some local call charges – in the face of protests from consumer groups and unions.

The utility said yesterday it expected an increase in the volume of international calls to offset the reduction in charges.

The ministry claimed initially that Telecom Italia could not change tariffs without a government decree, but the telecoms group said a November 1995 law governing the sector allowed it to reduce charges unilaterally. The ministry indicated yesterday it would probably refer Telecom Italia's decision to the council of state for an opinion on its legality.

Telecom Italia said it had brought its call charges into line with the cost of calling Italy from abroad. Before the latest cuts, the group, which announced a strong increase in 1995 profits earlier this week, was particularly vulnerable to sophisticated "call-back" services, which allow Italian-based callers to take advantage of cheaper international rates from such countries as the US and Britain. *Andrew Hill, Milan*

New TV deal on soccer in Italy

Mr Vittorio Cecchi Gori, the Italian film producer and owner of two small television channels, yesterday relinquished his rights to transmit Italian league football for the next three years less than a month after winning the L639bn (£267m) deal. The league federation said he had been unable to come up with the necessary financial guarantees.

The rights will now be bought by Rai, the state broadcasting organisation, which until last month had always transmitted them. Rai will pay the same price as Mr Cecchi Gori, equivalent to L213bn a year, but it will then sell back to Mr Cecchi Gori for L68bn a year the rights for deferred transmission of some matches on his Telemontecario and Videomusic channels.

Mr Cecchi Gori from the outset looked unlikely to fund his bid without selling on some rights or finding a partner, and probably always hoped to strike a deal with the Rai.

Everyone should now be happy. Mr Cecchi Gori has staked his claim to be a third force in Italian television alongside the Rai and Mr Silvio Berlusconi's Fininvest; Rai has salvaged face, while the Italian public can retain all their favourite Sunday TV programmes, which over the years have been built round the day's football matches. *Robert Graham, Rome*

US pledge to Nato hopefuls

The US yesterday renewed its commitment to eastward expansion of Nato, promising aspiring members from central and eastern Europe that the alliance "must not and will not keep new democracies in the waiting room forever".

Mr Warren Christopher, the US secretary of state, said in Prague that Nato expansion was "on track and it will happen". But he warned potential members of Nato that they "must be ready to assume the full risks, costs and responsibilities" that membership entails. He said that the next steps towards enlargement would be decided in December. Enlargement would begin with "the strongest candidates" and would "neither determine nor be determined by events in Russia".

Mr Christopher's speech was seen as a response to growing criticism in central Europe of Nato "foot-dragging" on enlargement. This was voiced most recently by Presidents Vaclav Havel of the Czech Republic and Alexander Kwasniewski of Poland, who accused Nato of "hesitancy" on the issue. *Vincent Boland, Prague*

Editorial comment, Page 23

Madrid told to repay Pta85bn

The Spanish government has been given two months to repay Pta85bn ($448m) to the Airtel consortium, which operates Spain's second mobile phone network, because Telefonica, the state-controlled operator, was not charged a similar fee when it set up its mobile system.

The European Commission says the government must either repay the money, charge a similar fee to Telefonica or adequately compensate Airtel, a consortium led by Airtouch Communications, the US mobile phone company, two Spanish banks and British Telecommunications.

The Spanish government has accepted the principle that it must compensate Airtel, but has yet to work out the details. Italy and Belgium, which also imposed fees on second mobile phone operators, have already been ordered to take similar action by Brussels. *Emma Tucker, Brussels*

German M3 rises strongly

German M3 money supply rose by an annualised rate of 12.6 per cent in February, according to the Bundesbank, thanks largely to increased credits to companies and individuals. This followed 8.4 per cent in January. The central bank's official target range is 4-7 per cent. The bank, however, warned about possible statistical distortions that can occur at the beginning of a year.

Economists disagreed about the impact of yesterday's figures. Some foresaw an early end to the current cycle of interest rate cuts; others argued that the Bundesbank relied on M3 only to the extent that it suited its objectives and that there remained sufficient headroom for further rate reductions. Yesterday's data were also swollen by a strong rise in bank loans to the public sector because of a series of largely technical factors. *Wolfgang Münchau, Frankfurt*

Belarus leader sacks editor

President Alexander Lukashenko's battle with the local Belarus media has taken a new turn with the sacking of Mr Nikolai Galko, editor of Narodny Gazeta, which is owned by the country's conservative-minded parliament.

The legality of the decree signed by Mr Vladimir Zametalin, former head of the presidential administration and the president's closest adviser, has been challenged by the editorial staff. "The president already controls radio and TV and has forced the independent press out of the country. Now he has dismissed the editor in chief of Narodny Gazeta in a similar arbitrary way," said Mr Vadim Bukat, the paper's foreign editor.

Last month Mr Lukashanko announced closer links between his country and Moscow after meeting Russian President Boris Yeltsin. Russian customs officers already operate with Belarussian officials on the borders with Poland and with Lithuania, where the independent Belarus media have been forced to print the papers and magazines which are then brought across the frontier for sale in street kiosks. *Anthony Robinson, East Europe Editor*

Greece and Albania bury hatchet

President Costis Stefanopoulos of Greece flies to Tirana today to sign a friendship pact with President Sali Berisha of Albania. The much-postponed visit should seal a gradual improvement in relations, now that disputes appear to have been resolved over the status of an ethnic Greek minority in southern Albania and of an estimated 300,000 Albanian immigrants working illegally in Greece.

Albanian officials have agreed that schools in southern Albana should provide Greek-language teaching.

Albania has also lifted the visa requirement for Greek businessmen, while Greece is preparing legislation allowing at least 150,000 Albanians to be issued with temporary work permits.

Greek companies have invested some $50m in Albania, mainly in retailing, textile manufacturing and tobacco processing. Several Greek banks have applied for licences to open branches in Tirana to handle transfers of funds from Albanian immigrants in Greece amounting to an estimated $300m yearly. *Kerin Hope, Athens*

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NEWS: EUROPE

Brussels digs for evidence of heating pipe cartel

William Lewis and Hugh Carnegy report on how ABB of Sweden and other companies are suspected of carving up a large portion of the European market

Mr Walter Henss is not a man to mince words. When the owner of Isoplus, a German-based maker of district heating pipes, heard in late October 1994 that Powerpipe, a Swedish competitor, had won a big district heating contract in the east German city of Neu Brandenburg, he quickly made an "offer" to his Swedish competitor.

Give up the Neu Brandenburg contract, collect DM50,000 ($34,000) in compensation and join the cartel operating in the district heating business. If Powerpipe refused, and continued to outbid cartel members for contracts, it would never be talked to again.

The incident is just one case in a large dossier of evidence now being sifted through by the European Commission. It is examining the operation of a suspected tightly knit cartel within the district heating pipe manufacturing industry, which has a total annual turnover in Europe of about $1bn. The evidence has been gathered chiefly in a series of raids carried out by Commission officials last June.

Organised price fixing, deals to carve up market share and intimidation are all methods which Brussels suspects have regularly been used to enforce – or attempt to enforce – the cartel in a number of European countries, including Denmark, Austria, the Netherlands, Sweden, several east European states and, most notably in the past two years, Germany.

Six companies are suspected of being members of the cartel: ABB, which was recently awarded the title of "Europe's most respected company" in a survey of top executives, three Danish companies, Logstor, Tarco and Starpipe, and two German-based companies, Panisovit and Isoplus, which has a factory in Austria.

The chief victim of the suspected cartel in recent years is understood to be Powerpipe, an independent, privately-owned company based outside Gothenburg.

A relative newcomer to the industry, Powerpipe has succeeded in building up a strong market share in Sweden and in the past two years has won important contracts in Germany, established a subsidiary in Poland, moved into other east European markets and even won contracts in China.

The growing strength of Powerpipe – it has a market share in Sweden of more than 30 per cent – belies its position as cartel victim. But allegations have been made that members of the suspected cartel systematically attempted to squeeze Powerpipe out of key markets and have attempted to discredit Powerpipe within the district heating market.

A former Powerpipe chief executive was poached by ABB in 1993 and placed in an executive position under Mr Kaare Wagner, the ABB senior executive manager formerly responsible for district heating operations. Other senior employees were lured away to work for other suspected cartel members.

The investigators believe that suspected cartel members subjected Powerpipe to reprisals after the award of a contract in Leipzig-Lippendorf in March 1995, just months after the Swedish company had won the contract in Neu Brandenburg.

Powerpipe at first decided not to bid for the Leipzig-Lippendorf contract because of its size. The initial contract – part of a huge $3bn energy complex project – was for DM21m, the biggest of its kind in Europe for 10 years and larger than Powerpipe believed it could finance and supply. But Viag, the contractor, was angered by evidence that the cartel was attempting to fix the deal.

In an apparent slip-up by suspected cartel members, Logstor undercut a bid by a consortium of ABB, Panisovit and Isoplus. When Logstor suddenly recast its bid above the ABB-led consortium's offer, Viag turned to Powerpipe, urging it to make a bid, which Viag offered to help finance.

Powerpipe's offer was pitched to ensure it achieved an operating return well above its normal small profit margin – but it still came in below the ABB consortium and it won the contract.

Investigators suspect that in retaliation, cartel members "possibly threatened a collective boycott on both Powerpipe's suppliers and customers, in order for them to break their business connections with Powerpipe", a letter written by the Commission states.

POWERPIPE

'Members of the suspected cartel possibly threatened a collective boycott on both Powerpipe's suppliers and customers, in order for them to break their business connections with Powerpipe.'
European Commission investigators

ABB

Commission investigators suspect ABB to be the lead company in the district heating pipe 'circle'. Yesterday, ABB said: 'We have no comment as long as the investigation is going on.'

That letter warns that "should it be proved that this is the work of a collective boycott, it could represent a serious violation of Article 85 of the EC Agreement".

Further allegations of boycotts came last year in Denmark, where district heating was first established as early as the 1920s and where allegations of alleged cartel behaviour by the main operators have frequently been made in the local media.

These have been prompted mainly by the fact that prices for district heating contracts have at times been as much as 50 per cent higher than in neighbouring Sweden, despite both markets being served by many of the same companies.

Powerpipe entered the Danish market for the first time in 1995 when it won a SKr1.5m ($221,000) contract to deliver pipes to the city of Aarhus. Within weeks, a key Powerpipe sub-supplier which has most of its business with suspected cartel members, told the Swedish company it could no longer deliver. The move meant Powerpipe was forced to withdraw from the Aarhus contract and has since been absent from the Danish market.

"Of course, Powerpipe was squeezed out by the cartel putting pressure on the sub-supplier," said a Danish engineer with close knowledge of the case. "The same sub-supplier was able to continue to deliver to Powerpipe competitors, so why couldn't they have gone on delivering to Powerpipe?" The company was not available for comment yesterday.

In the case of Leipzig-Lippendorf, the Commission also has evidence ABB district heating executives in Germany attempted to persuade Viag to disqualify Powerpipe on technical grounds from the contract there. Suspected cartel members have frequently publicly cast doubt on Powerpipe's ability to meet quality standards.

The reaction of the suspected cartel members in both Neu Brandenburg and Leipzig-Lippendorf sheds the clearest light on their methods of operating – although, ironically, both contracts were won by the outsider, Powerpipe.

In the case of Neu Brandenburg, the suspected cartel was anxious to restore order to its affairs after a price war in early 1994 prompted by the intrusion of Tarco into the German market for the first time. By October, Tarco and the suspected cartel had made peace as the Neu Brandenburg contract – an order of tubing for a municipal central heating system – was out for tender.

It is understood there were more than 20 cases in Germany where contracts worth more than DM100,000 had been divided up by the suspected cartel. Under the system it operated, investigators suspect, ABB had a guaranteed market share of 50 per cent, Logstor of 20 per cent and Isoplus between 10-15 per cent, with the rest going to the other members.

Commission investigators believe Isoplus had been "awarded" the Neu Brandenburg contract by the cartel. It bid DM970,000, the lowest of all the cartel bidders, and this was recommended by Neu Brandenburg's purchasing director. But, unknown to the cartel, Powerpipe had sent its DM500,000 bid secretly to the home of the manager in charge of awarding the contract.

Suspected cartel members were furious with Powerpipe for exposing them and for beating Isoplus to the contract. Representatives and executives from Isoplus, Logstor and ABB then tried to persuade, cajole and threaten Powerpipe into backing out of the Neu Brandenburg contract.

Apart from Mr Henss's approach, Mr Klaus Beck, sales director of Logstor, and a consultant to Isoplus and other district heating companies were involved.

Evidence in the hands of the Commission shows how the cartel members explicitly acknowledged co-ordinating their actions in deciding how to deal with Powerpipe, orchestrated by ABB executives.

Mr Henning Balle Kristensen, head of ABB's district heating division, is named as the main person involved. Mr Kaare Vagner, a Danish ex-boxing champion and member of ABB's senior management group, used to be responsible for district heating, but ABB said yesterday that Mr Armin Meyer, another vice president, now had responsibility. The European industry association, the European District Heating Pipe Manufacturers Association, is identified as the main cover for cartel activities which are said to be based on regular talks.

Individual executives appear to have been assigned the job of approaching Powerpipe on the suspected cartel's behalf. Among the offers made were suggestions on dividing up market share in Sweden – including the removal of at least two outside companies – to stabilise prices and ensure Powerpipe a regulated, profitable position.

Powerpipe would also be given some share of other European markets, to be hammered out in meetings to be arranged if the Swedish company agreed.

If Powerpipe refused to comply, suspected cartel members would organise aggressive price cutting, or price dumping, on individual contracts in revenge.

At different times in different markets, relationships between the suspected cartel members break down, leading to price wars.

A clear example of this came in 1994 in Denmark. A steady price trend was suddenly broken two years ago after Isoplus came into the market for the first time and prices fell by up to 40 per cent.

Within a year, prices were back to 1993 levels. Evidence held by the Commission shows suspected cartel members acknowledging that Isoplus was brought into the fold in Denmark, restoring order. Evidence shows that similar efforts have been made to stabilise the operation of "the circle" across Europe in an effort to cut out the incidence of such occasional infighting.

Suspicion falls on 'most respected company'

The suspected involvement of ABB, the Swedish-Swiss engineering multinational, in a Europe-wide district heating cartel does not fit easily with the company's reputation for excellence, write William Lewis and Hugh Carnegy.

In September, ABB was judged in a survey of 1,000 senior executives in 18 European countries to be Europe's most respected company for the second year in succession.

ABB also emerged in another poll of chief technology officers of 100 European companies as the European company considered to be the best manager of technology and innovation. Mr Percy Barnevik, the Swedish chief executive, is one of Europe's most high profile managers. The group was formed by the 50-50 merger in January 1988 of Sweden's Asea and Switzerland's Brown Boveri, both marginal operators – in global terms – in the electrical engineering business.

Asea is controlled by Sweden's Wallenberg family, one of Europe's most powerful industrial dynasties, which has a controlling interest in companies such as Astra, Ericsson, Electrolux, Saab and Scania.

In its first year, ABB had sales of $17.8bn and net income of $386m.

Today, it is one of the top international competitors in this field, alongside General Electric of the US and Siemens of Germany. In February it announced a 73 per cent increase in net profits for 1995 to $1.32bn on sales of $33.73bn.

Analysts say the company appears well placed to enjoy above average growth in revenues and profits in the next few years.

ABB has five so-called business segments: power generation, power transmission and distribution, industrial and building systems, financial services and transportation equipment. District heating is headed by Mr Armin Meyer, an executive vice-president and a member of the group executive committee.

ABB said yesterday that Mr Meyer last year took over responsibilities for district heating from Mr Kaare Vagner, another executive vice-president.

ABB operates in the district heating market chiefly through a Denmark-based subsidiary called I.C.Moeller and a German subsidiary called ABB Isolrohr.

Mr Henning Balle Kristensen is managing director of ABB's I.C.Moeller. Mr Christian Engstedt was formerly managing director of ABB's district heating operation in Sweden but ABB said yesterday that he was now working elsewhere within ABB.

European Commission investigators suspect ABB to be one of two key participants in the suspected cartel, alongside Logstor, a Danish company.

Evidence they hold includes direct references by suspected cartel members identifying ABB as the most important company in co-ordinating activities within the circle, with Mr Balle Kristensen as the key figure.

NEWS: INTERNATIONAL

US driving Iranian regime into Russian arms

While Washington talks sanctions, Tehran is cementing ties with Moscow

When Mr Ali Akbar Velayati, the Iranian foreign minister, toured the newly independent states of the Central Asia in 1991, alarm bells rang in both Washington and Moscow: fundamentalist Islam seemed to be marching north.

Nearly five years on, Iran has established itself as an important diplomatic and commercial player in the southern states of the former Soviet Union – but spreading militant Islam appears to be the last thing on its mind.

Instead, Iran is projecting its influence as an economic lifeline for Armenia, a would-be peacemaker among its ethnic kin in Tajikistan, and a privileged commercial partner for the energy-rich republic of Turkmenistan.

The pragmatic face which Tehran has shown its neighbours can be seen in Ashgabat, the Turkmen capital – where Iranian-owned shops, decked out with portraits of Iran's spiritual and political leaders, do a brisk trade in Coca-Cola, Kodak cameras and long-life batteries.

This triumph of commerce over ideology has created some strange bed-fellows. The National Iranian Oil Company, for example, has recently joined a consortium of western companies refurbishing the Turkmenbasi refinery in Ashgabat. It will work alongside Merhav, an Israeli company.

In Transcaucasia, Tehran enjoys close relations with Christian Armenia, providing its only relief from an Azerbaijani blockade. As a result, Iran's ties with its fellow Shia Moslems in Azerbaijan remain prickly.

But when Mr Velayati revisited the Commonwealth of Independent States this month, he was cordially received in eight capitals – including Moscow, whose leaders voiced confidence that Russia and Iran could work together in all regions, from Bosnia to Afghanistan, where both have interests. The hardest test for Russian-Iranian co-operation will come in Tajikistan, where Russia is backing a hardline regime against Islamist rebels operating on both sides of the Tajik-Afghan border.

So far, Iran has apparently failed in its bid to assist Russia by "delivering" a more compromising stance by the Tajik rebels. But Russian officials still appear to be counting on the governments of both Tehran and Kabul to put religious loyalties aside and help Moscow stabilise the region.

Russia and Iran have several times agreed that any exploitation of the vast energy reserves in the Caspian must be subject to agreement among all the littoral states – while Azerbaijan and its western partners strongly disagreed.

The coincidence of views between Moscow and Tehran on this subject is not total. At least one school of thought suggests that Russia has attempted to "play for time" in the Caspian by obstructing major energy deals until Moscow can reassert its influence.

Iran, by contrast, faces such a foreign exchange shortage that it needs Caspian drilling to go ahead as soon as possible. But all recent signals from both Moscow and Tehran have indicated that they see each as partners, not competitors.

US officials, who are furious critics of Iran's behaviour in other areas – and of Russia's role in helping Iran with nuclear technology – have been relatively silent on the subject of Iran's role in Central Asia.

But the issue of Iranian influence in the CIS is likely to come to a head in the coming weeks as the US Congress redoubles its effort to tighten the blockade on Iran and impose punitive measures on companies which deal with it.

Senator Alfonse D'Amato, one of the harshest US critics of Iran, protested furiously to President Bill Clinton over a UN agency's support for a gas pipeline that would cross several states including Iran.

The International Relations Committee of the House of Representatives is today expected to pass on to the full House a bill that would bind Mr Clinton to impose harsh penalties on non-US companies dealing with Iran.

The bill would require Mr Clinton to chose at least two out of five possible sanctions against any company that invested more than $40m in Iran's oil industry or traded with Iran in oil-related goods.

The sanctions would include: a ban on US imports from the companies concerned; a denial of US export licences to those companies' US subsidiaries; a prohibition of Exim bank assistance to those subsidiaries; a ban on US banks lending to the sanctioned companies; and exclusion from US government procurement.

In addition, any bank which lends more than $10m to Iran could be banned from primary dealing in US securities.

The White House is nervous of sparking a trade war with its European allies, and will press Congress for maximum flexibility. But Congressional critics of Iran are confident of passing most of their proposals.

On the face of things, the US measures could kill stone dead any interest among western companies in those projects – such as new pipelines from Turkmenistan to Iran – which might serve to consolidate Iran's regional influence.

But Iran's isolation may prompt it to co-operate even more closely with partners in the former Soviet Union – and the Moscow-Tehran axis could grow even stronger.

Sander Thoenes, Afshin Molavi and Robin Allen

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R F I

Bank tries to plug looming water conflict

By Stephanie Gray

Conflict over scarce water resources in the Middle East and North Africa can be avoided if governments reduce subsidies, promote more efficient irrigation and divert water away from low-value agriculture to cities and people, the World Bank says in a report on the region's looming crisis, published yesterday.

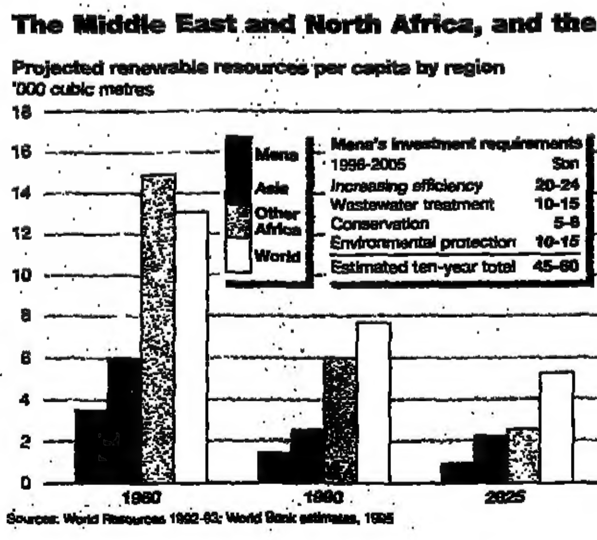
It says investment of between $45bn and $60bn over the next 10 years would increase water supplies by 50 per cent and avoid disputes which many fear could cause another war in the region.

The bank has proposed a conference early next year to include governments in the region, the European Union, the African Development Bank, and Arab funds and bilateral donors.

Most of the investment would come from the countries themselves, through user charges. Donors would contribute about 25 per cent.

One of the worst examples of the water crisis is Gaza where each Palestinian has access to less than 15 gallons a day, compared with 800 gallons for each American. If no action is taken each Palestinian may have less than eight gallons a day within 30 years, the report says.

The Middle East and North Africa, and the world's water



Sources: World Resources 1992-93; World Bank estimates, 1995

Oasis in South Arabia

But the situation could be remedied within a decade. Water supplies could be increased by 50 per cent and water losses, now about 50 per cent of municipal water supplied, could be halved.

In 1960, says the bank, water supply per head per year was 3,300 cubic metres. On present trends it will have fallen 60 per cent to about 1,250 cubic metres by 2025.

The report says 87 per cent of water is allocated to irrigation and only 13 per cent to municipal and industrial uses, compared with 69 per cent and 31 per cent worldwide. Irrigation efficiency in the region is so poor that, in flood irrigation, only 30 per cent of the water reaches the crops.

Even small transfers of water out of agriculture could make a big difference. "A 15 per cent reduction in agricultural use in the region would double the water available to households and industry," it says. The bank recognises that shifting water from agriculture is socially and politically sensitive, but argues that if farmers paid the real (unsubsidised) cost of water they could be shown how to grow water-efficient crops.

On urban water, where 50 per cent is wasted, the report targets poor maintenance, inappropriate technology and weak technical and financial management.

Local, national and international initiatives had so far shown few benefits because "national institutions do not work together, plans and programmes are often duplicated and sometimes contradictory, donor involvement is fragmented and unfocused and heavily subsidised water provides little incentive for conservation."

The bank advocates the establishment of water advisory councils with representatives from governments and users to increase community acceptance of the need for conservation. Some form of national water authority should be responsible for strategy but delivery should be decentralised, becoming the responsibility of river basin and regional irrigation authorities, water and sewerage utilities and rural communities.

Though unpopular, the report argues that private sector involvement in the water sector is imperative. "The first step to efficiency is to commercialise operations as most European public utilities have done successfully," it says.

INTERNATIONAL NEWS DIGEST

Disaster claims 'could double'

Claims borne by the world's insurance companies from large-scale natural disasters could double by the end of the decade, according to forecasts yesterday by Munich Re, the world's largest reinsurance group. As fears about global warming grow, insurance companies should reduce still further the risk they assume in vulnerable areas, Munich Re says. They should also persuade clients to bear more of the risk through higher policy excesses.

In its annual survey of natural disaster costs, Munich Re highlights the trend towards ever more costly disasters. Last year, losses from natural disasters reached $180bn, including the Kobe earthquake in Japan which killed more than 6,000 people.

Losses covered by insurance policies last year were relatively low – largely because much of the damage in Kobe was uninsured. But, Munich Re comments: "The earthquake in Kobe cast as stark light on the vulnerability of modern cities to the powers of nature. The loss potential of similar events in conurbations like Osaka, Tokyo, and Los Angeles is many times higher... Overall economic losses in Tokyo could be as high as $3,300bn."

In the past 10 years, the number of "great" natural catastrophes has increased four-fold compared with the 1960s. After allowing for inflation, total losses were more than eight times as high and losses covered by insurance policies increased by a factor of 15. *Ralph Atkins, London*

Nigeria ousts disgraced bankers

The Central Bank of Nigeria has removed 178 bank directors and barred 75 others from such posts in a clean-up of fraud which has left more than half of Nigeria's 116 banks insolvent. Many of the sacked directors are already detained or facing charges at a special tribunal set up last year by a military decree which gave the central bank and the Nigerian Deposit Insurance Corporation (NDIC) sweeping powers of arrest and recovery of funds. In addition to forfeiting their shareholdings, the directors would also refund N700m ($8.3m) they owed to the banks involved, the central bank said.

The main cause of the collapse of the banks is theft or fraud by senior staff, directors and shareholders. Rampant fraud followed the vast increase in the number of banks and finance houses after partial deregulation in 1986. *Paul Adams, Lagos*

● A United Nations fact-finding mission will travel to Nigeria at the request of the military regime there next week to look into the judicial procedures followed in the trial and execution of Mr Ken Saro-Wiwa and other leading dissidents. The executions provoked international outrage and some sanctions. *Michael Littlejohns, New York*

Bomber kills Israeli soldier

A suicide bomber killed one Israeli soldier and wounded five others in south Lebanon yesterday, only hours after Mr Shimon Peres, Israeli prime minister, said Israel would practise restraint there if not provoked by Islamist guerrillas. The attack, claimed by the Iranian-backed Hizbollah, adds to tension on the Israeli-Lebanese border following recent bombings which killed five Israeli soldiers.

The bombing has fueled speculation that a big Israeli strike is imminent. Israelis and Lebanese had been expecting an operation this week in response to both the Hizbollah attacks and recent suicide bombings inside Israel. Israeli papers reported yesterday that the US had pressed Mr Peres to delay military action while it urged President Hafez Assad of Syria to rein in Hizbollah. *Mark Dennis, Jerusalem*

Patten assails Beijing plan to scrap Legco

By John Ridding in Hong Kong

Mr Chris Patten, governor of Hong Kong, yesterday condemned China's plan to replace the territory's elected legislature, claiming it was aimed at reducing the number of democrats and excluding certain individuals from the body.

Mr Patten's comments came as the Beijing-appointed group, overseeing Hong Kong's handover to China, appeared set to confirm proposals to scrap the present Legislative Council (Legco), in spite of strong opposition from Britain and local democrats.

Members of the 150-strong Preparatory Committee, which is meeting in plenary session in Beijing at the end of the week, indicated they would approve the formation of an interim Legco. But they said details of how a provisional legislature would be formed may take more time to emerge.

The fate of Legco, elected last year under political reforms introduced by Mr Patten, has remained a subject of acute dispute between Britain and China ahead of next year's handover.

In a visit to Hong Kong earlier this month, Mr John Major, Britain's prime minister, warned Beijing against carrying through its pledge to dissolve the body. He indicated he would seek world backing in support of Britain's stance.

Last year's Legco elections marked a victory for the Democratic party, led by Mr Martin Lee, and a blow for pro-Beijing groups. Mr Lee said abolition of the present Legco would prevent the territory's autonomy.

Mr Tsang Yok-sing, leader of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong, defended the decision to implement a provisional Legco. He said Mr Patten's political reforms were invalid because no agreement had been reached with Beijing on the issue, despite 17 rounds of negotiations.

The 1984 Sino-British Joint Declaration specified only that the legislature should be constituted by election, Mr Tsang added. He indicated the provisional legislature could be elected by a 400-member selection committee, to be formed by the Preparatory Committee, and that the provisional Legco would then be replaced as soon as possible by a new elected body.

Mr Patten also urged China to address the question of the right of abode in the territory.

The long queues for British National Overseas passports, which will replace the present British Dependent Territory Citizens' passports, reflected concerns about issues of nationality and right of abode.

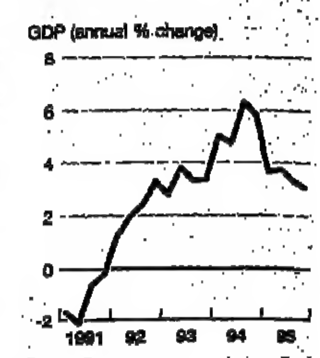
China has said passports for the Special Administrative Region (SAR), as Hong Kong will be known after 1997, will be issued in the territory; Britain has announced visa-free access to the UK for SAR passport holders. But China has yet to specify the conditions to qualify for right of abode.

Growth slows in Australia

By Nikki Tait in Sydney

Australia

GDP (annual % change)



Source: Datastream

Australia's economy continued to grow at around 0.5 per cent, seasonally adjusted, during the final quarter of 1995, bringing the annualised growth for the year to about 3.1 per cent.

The final-quarter result marks a considerable slowdown from the 1.6 per cent rise in real gross domestic product seen during the September quarter, when year-on-year growth rate was 3.3 per cent.

But it was still a slightly stronger performance than private-sector economists had been expecting, with some cautioning the annual growth rate could slip below 3 per cent.

Late last year, warnings were given that growth might have tailed away altogether in the final quarter. This concern was suggested as a factor behind the timing of the federal election – the poll date was March 2, comfortably ahead of yesterday's release.

In the event, the boast that Australia had achieved 17 consecutive quarters of economic growth failed to save the Labor government, and it is unlikely that confirmation of the growth trend continuing for a record 18th quarter would have made much difference, either.

Yesterday, Mr Peter Costello, federal treasurer, said the accounts showed "a worrying but not unexpected weakening in growth". He noted a contributory factor in the slowdown was a drop-off in investment in plant and equipment during the final quarter of 1995, which could prove temporary.

"The indication to date is that the weakness in plant and equipment could be overcome," he declared.

Mr Kim Beazley, the new opposition leader, welcomed the figures, pointing out they contradicted claims by the Liberal-National coalition during the election campaign that economic growth had halted.

Recent budget forecasts by the treasury, which suggested an underlying deficit (before asset sale proceeds) of A$7.64bn (£3.9bn) in 1996-97, may have been over-pessimistic, he added.

The projections were based on a growth rate of 3.25 per cent for the next financial year.

The continuing moderate growth demonstrated by yesterday's figures was thought likely to rule out any change in official interest rates for several months. Both the foreign exchange and bond markets took the news calmly, with 10-year bond yields virtually unchanged.

Okinawa seeks a lighter defence burden

The island feels it has been unfairly imposed on. Peter Montagnon reports

The Kyohan Bookshop in Okinawa's main town, Naha, has just taken delivery of a new edition of a book by the prefecture's Governor Masahide Ota.

Kyohan says the book, hastily reprinted in response to Mr Ota's campaign to remove all US bases from Okinawa by 2015, is selling well. Its title, The Ugly Japanese, the Outrage of Okinawa, is a reminder that Mr Ota's quarrel is as much with Tokyo as with Washington.

Still, Mr Ota's campaign has placed politicians on both sides of the Pacific in a quandary. Okinawa's Pacific location is of peculiar strategic importance. Home to 28,000 of the 47,000 US troops in Japan and the site of three-quarters of their installations, it is the cornerstone of the US-Japan security alliance.

The alliance, as most defence experts recognise, is the cornerstone of the entire region's security, not just that of Japan. Few Asians want to see it weakened just as tension is rising in the Taiwan Strait.

The search for a workable compromise will be high on the agenda for President Bill Clinton's visit to Japan next month. Before that, next Monday, tempers could flare again when a court in Fukuoka, on Japan's southernmost main island, Kyushu, rules on whether Mr Ota is obliged to force local landowners to renew leases to US forces which expire at the end of the month.

The court is expected to rule in favour of the Tokyo government, which brought the case to secure renewal of the leases, but Okinawans have already objected that it refused to hear depositions by local people.

The immediate spark for a campaign to close the bases was the rape of a 12-year-old schoolgirl on Okinawa last September, for which three US servicemen were convicted. Americans of all ranks have apologised profusely for that incident, but they can do little to overcome the deep-seated feeling among Okinawans that their remote island has long been unfairly imposed on.

Resentment goes back to the end of the second world war when Okinawa saw some of the bloodiest fighting on Japanese territory. About a third of the local population died. Okinawan museums still record how Japanese soldiers killed local children and stole their food.

Many Okinawans still believe they were deliberately sacrificed to keep fighting away from the Japanese mainland. The problem continued after the war, when land was requisitioned by the US and turned into bases. Emotions were already high last year, the 50th anniversary of the fighting. Then came the rape case.

"The gasoline was sloshing around on the floor and a match was thrown in it," says Lt Col Marc Smith, chief of the US Army area field office.

Okinawans bear a remarkable lack of personal animosity to the Americans in their middle. Since the rape incident, the US has stepped up its efforts at good neighbourliness. Last week, flights were temporarily halted to minimise noise during the annual Japanese high-school entrance exams.

"There is no hatred for individual Americans," says Mr Kanko Teruya, a senior official in Mr Ota's office. Instead, he argues, Okinawans are frustrated at the way their concerns have been ignored. The present campaign is part of a carefully planned policy for phased removal of the bases in train before the rape incident.

The question should have been tackled when Okinawa, which had been under US administration since 1945, reverted to Japanese administration in 1972, Mr Teruya adds.

The bases now take up about 20 per cent of Okinawa's land space, including valuable space in the urban south-west, but according to both Okinawan and US calculations, they contribute only about 5 per cent to local economic output.

Besides the constant noise, Mr Teruya says, Okinawans are worried about the risk of accidents around bases in the middle of residential areas. Futenma Base in the south-west has 16 schools in its immediate vicinity. The bases take up land needed for urban development. Nearby, the vast Kadena Base with its 20km perimeter takes up over 80 per cent of the land space of Kadena town.

Resentment festers even about seemingly small things, such as the reduced road tax paid by US personnel. Local people say the absence of number plates on US military vehicles makes it hard to claim compensation when they are involved in accidents.

"If you say the security tie [with the US] is important, why should Okinawa people have to shoulder a significantly heavy burden for it?" Mr Ota told the Fukuoka court.

Yet mainland Japan is unwilling to share the burden. The bases could not be moved to the mainland without huge protest, says Ms Yuriko Koike, a Diet member from the opposition New Frontier party. "It would be like transferring a ticking bomb."

The answer, she believes, is to give Okinawa, the poorest prefecture in Japan, more help beyond the huge subsidies it already receives. A special tax-free status could help it realise its ambition of becoming an international tourism and business centre.

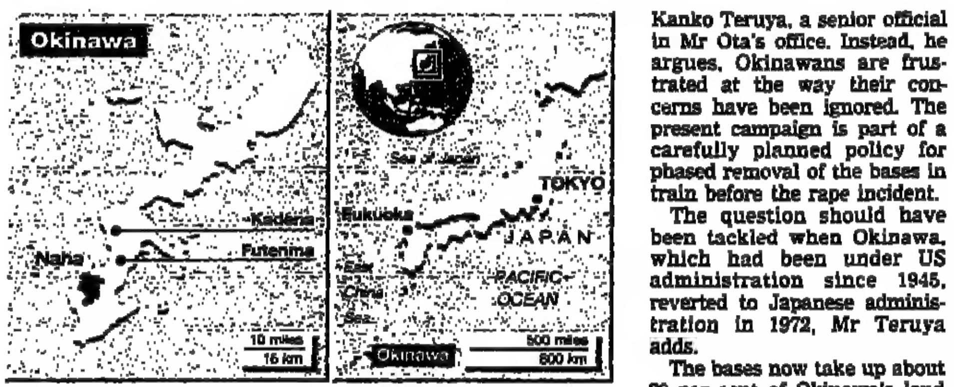
For now, the US and Japanese governments are concentrating on practical ways of making life easier. Agreement is near on the reduction of noise and on plates for military vehicles. A special committee is due to report in November on ways of consolidating and reducing the bases.

"By the time of President Clinton's visit to Japan in April, many of those measures will have taken shape," says Mr Yukihiko Ikeda, Japan's foreign minister.

Less clear is whether what promise to be largely cosmetic measures will be acceptable to Okinawans. Among the first batch of facilities they want returned is Futenma Base itself, which is the only forward deployment base for the US Marines outside the US. There is scant chance of either Washington or Tokyo agreeing to that.

Officials in Tokyo try to be understanding but they know that ultimately they may have to be tough. "The government has no intention of letting the US face the awkward situation of eviction," says one senior official. "We have to ensure the security of Japan."

Governor Ota, a peaceable history professor before he entered politics, may not relish the thought of going to war, but he seems likely to face a long and bitter campaign.



The prefecture's dependence on US military bases over 20 years

	1972	1992
Spending by servicemen and civilian employees	¥41.4bn	¥54.6bn
Income of Okinawan employees on base	¥24.0bn	¥50.0bn
Rent for military sites	¥12.6bn	¥56.8bn
Total receipts for military transactions	¥78.0bn	¥161.4bn
Share of receipts in Okinawan GDP	15.4%	5.1%
Number of Okinawan employees on bases	20,000	7,900

Source: Prefecture government

Military tightens its grip on Laos

By Ted Bardacke in Bangkok

The Lao military strengthened its grip on the country's political and economic machinery yesterday as the ruling Communist party sacked Mr Khamphoui Keoboualapha, a reformer and deputy prime minister, from party leadership positions and handed the army a majority on the new nine-man politburo.

The moves, announced at the end of the party's first full congress in five years, are unlikely to derail the economic liberalisation programme, but reforms are now likely to be dictated by the economic ambitions of the military establishment, diplomats and other observers said.

In a broad reshuffle, Mr Khamtay Siphandon, prime minister and former head of the armed forces, was selected to head the politburo, automatically replacing retiring President Nouhak Phoumsavan as head of state. Mr Choummaly Sayasone, defence minister, was promoted to the politburo's third spot and is now the favourite to replace Mr Khamtay as premier when the national assembly meets next month.

Losing their posts both on the politburo and in the party's 49-member central committee were Mr Khamphoui and another reformer, Mr Phao Bounnaphon, communications minister. Their executive positions in the government are expected to come under heavy scrutiny by the national assembly as a result of being removed from their party posts.

In a speech last Sunday to open the party congress, the prime minister harshly criticised implementation of economic reforms in landlocked Laos, one of the poorest countries with an annual per capita income of less than $400. The party was going to "expel" government officials and bureaucrats who "have not yet tried hard for a success", he said, complaining that inflation last year hovered around 20 per cent and there was a corresponding devaluation of the local currency, the kip.

But Mr Khamtay, now the undisputed strongman of Laos, stopped short of criticising the value of economic reform. Instead it now appears "the military will have the upper hand in directing the reform process", said one diplomat.

The military is heavily involved in private business ventures. The government has broadly divided the country into three development areas and given three military owned companies exclusive logging concessions in them.

Wood exports are Laos's second largest foreign exchange earner and the military companies have used their profits

Cambodian casino plan fails to come up trumps

Ted Bardacke reports on problems of a Malaysian company in developing Sihanoukville into a resort

When the Cambodian government chose a little known Malaysian company to develop its showcase foreign investment project, a $1.3bn (£853m) airport-hotel-casino development in the southern port city of Sihanoukville, critics pounced.

Kuala Lumpur-based Ariston, they claimed, was interested primarily in the lucrative casino monopoly included in the deal and had neither the financial might nor the experience to push the project through to completion.

More than a year after the contract signing was witnessed by Prince Norodom Ranariddh and Mr Hun Sen, Cambodia's

surveyors was chased off the airport site by security guards from the Cambodian Civil Aviation Authority who were demanding bribes.

These delays are costly. The $1.3bn investment is more than half the total foreign commitments approved by the Cambodian government since United Nations sponsored elections in 1993. And when a privileged Malaysian company – Malaysia is the largest foreign investor in Cambodia – encounters problems, it lends credence to

The relationship between Ariston and the tourism

set up a Sihanoukville Development Authority, chaired by the two prime ministers.

But the relationship between Ariston and the tourism ministry, which conceived the project and has overall responsibility for it, is "really, really bad", according to one ministry official.

This antagonism stems from the ministry's private objection to Ariston having being selected by an intra-ministerial committee as project developer. While tourism ministry officials claim they wanted to go with a "more established" company, two members of this committee say they were overwhelmed by the up-front

ASIA-PACIFIC NEWS DIGEST

S Korean GNP grows by 8.7%

South Korea's gross national product grew 8.7 per cent in 1995, a slightly slower rate than earlier predicted, the Bank of Korea said yesterday. The central bank also said that Korea's per capita GNP had passed the $10,000 (£6,560) milestone for the first time.

Most economists predicted a GNP growth rate of more than 9 per cent, but performance weakened in the fourth quarter as consumer confidence was affected by political scandals. Gross domestic product, the measure of economic growth preferred by the Korean government, grew by 9 per cent.

Last year's GDP growth, the highest since 1991 at 9.1 per cent, reflected brisk exports because of a weak Korean currency and heavy industrial investments. Exports rose by 24.1 per cent, while industrial investments increased by 15.9 per cent. Private consumption climbed by 7.9 per cent. But slow GNP growth in fourth quarter at 6.6 per cent, against 9.7 per cent in the third, has raised concerns that the economy may be heading for a sharp downturn. *John Burton, Seoul*

Taiwanese fear for economy

Taiwanese industrial production and export orders held up well last month, but officials warned that tension with China might be putting a new brake on the already slowing economy.

Economics Ministry figures showed industrial output grew 3.14 per cent in February from a year earlier. This was an increase on January's rate of 2.86 per cent. Year-on-year growth in foreign orders for Taiwan goods rose 16.16 per cent. A Finance Ministry poll of exporting companies showed more than 16 per cent believe their business has been hit by the Taiwan-China crisis.

China, meanwhile, hailed the successful end of a first round of live-fire military exercises in the Taiwan Strait, and army strategists were quoted as saying Chinese troops could sweep into Taiwan in hours. In Washington US officials said the administration had agreed to sell shoulder-fired Stinger anti-aircraft missiles to Taiwan as part of a package of new defensive equipment. *Reuter, Taipei and Beijing*

UN food relief ship sinks

A ship chartered by the United Nations World Food Programme has sunk during a voyage delivering rice to North Korea. The Chinese-registered freighter went down in the Taiwan Strait with the loss of 15 crew. The strait, scene of military exercises by China, has been hit by storms this week. The WFP said that according to its agents a further nine were rescued. It was to have been the organisation's second shipment of rice to North Korea, where severe floods last year exacerbated food shortages. The cargo – donated by the US, Switzerland and Austria – was fully insured and another larger shipment of 8,200 tonnes would leave Bangkok for the port of Nampo shortly, the WFP added. *Foreign Staff, London*

NEWS: WORLD TRADE

Storm over video disc launch date

By Alice Rawsthorn

The electronics and entertainment industries are at loggerheads over delays in Hollywood's plans to launch movie software for the new generation of digital video disc (DVD) systems.

Electronics companies hope the new DVD entertainment systems will be used for watching high quality films and listening to music, and will revitalise the sluggish market as the audio CD and video cassettes did in the 1980s.

However, the success of the new system will depend on the availability of entertainment software, chiefly films, which will not only achieve superior visual quality to video cassettes but will also offer higher quality sound than audio CDs.

The Hollywood film studios were initially enthusiastic about the prospects for the new discs. They hope that DVD will create a lucrative new software market as the difference in quality may persuade consumers to buy their favourite films on discs, rather than renting them on video.

But some electronics companies are now concerned that the Hollywood studios may not release enough films on DVD in time for the proposed launch of the players this autumn.

Mr Jan Oosterveld, president of the key modules divison of Philips, the Dutch consumer electronics company, said the studios were sending out "confusing signals" about the number of films they were willing to put out on DVD and the timing of the releases.

Similarly, the studios are asking for DVD players and software to be produced in eight versions, each for a different part of the world, making it impossible for consumers to play a disc manufactured for one region, such as the US, in another region.

This system would suit the current Hollywood release schedule whereby the studios stagger the introduction of films on video in different parts of the world, usually starting in the US and then moving through Asia to Europe. It would also help them maintain price differentials in different markets.

Mr Oosterveld said Philips was opposed to a regional coding system as it would cause "total turmoil" in the marketplace. "We have a single standard for audio CDs worldwide, so why not DVD?" he said. "If I buy a book in New York, I expect to be able to read it in London."

At present Philips still hopes to launch its first DVD entertainment systems in the US by early 1997, but Mr Oosterveld said the company would need to be sure that the entertainment software issues had been resolved before it took a decision on the launch date.

Sony and Matsushita yesterday confirmed they will launch their models this year, starting in Japan.

Qatar finally catches the train as gas exporter

The Gulf state is poised to be a leading Middle East supplier, writes Robin Allen

Twenty five years after the discovery of the North Field, possibly the world's largest single reservoir of natural gas, the Gulf oil state of Qatar is poised to become one of the Middle East's leading gas exporters.

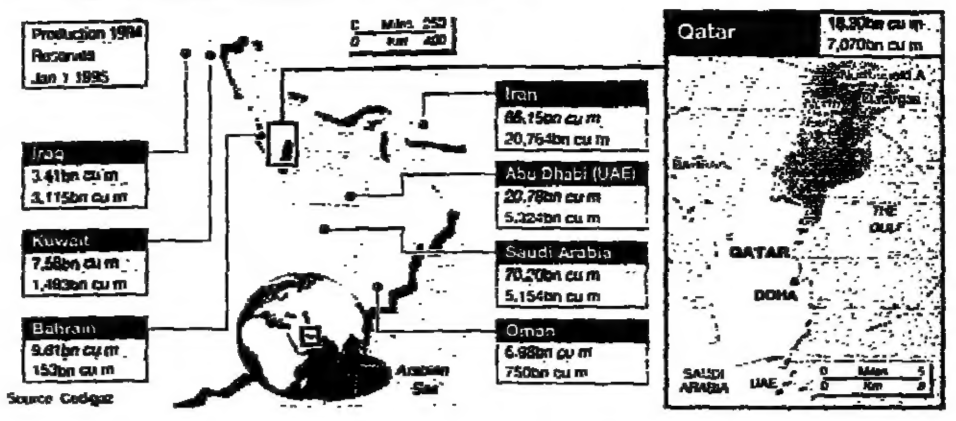
Barring further delays, Qatar Liquefied Gas Company (Qatargas), will become operational next October and make its first shipments of liquefied natural gas (LNG) to Japan next January 1. It is a joint venture owned 65 per cent by Qatar General Petroleum Corporation (QGPC) and 10 per cent each by Mobil of the US and France's Total, with Japanese trading houses Marubeni and Mitsui holding 7.5 per cent each.

Qatar's refusal to provide a sovereign guarantee for international bank and European export credit agency financing has meant long delays in finalising a $700m loan for the upstream work. Officials hope agreement will be reached by the end of this month.

The entire Qatargas project – upstream, liquefaction and shipping – comprising three "trains" of 2m tonnes per year (tpa) of LNG each, will cost $6bn-$7bn including construction of the tankers.

The first two trains, so called because each has its own series of pipelines, machinery and storage elements, will cost some $4bn.

Gulf gas: Qatar joins the big league



Source: Cedigaz

The output will go to Chubu Electric Power Company, with seven Japanese power utilities taking the 2m tpa third train starting in 1998.

The $2bn downstream financing, provided by Japan's Eximbank and four commercial banks, proved less contentious because, unlike the upstream portion where there is no collateral, the Japanese have ensured supplies of gas as security against the loan. The second drawdown on the downstream loan was made in mid-February. Repayment of three tranches in 17 semi-annual instalments starts on August 1 1999.

Pricing, according to officials, is "based on a blend of rates averaging 1 per cent over Libor" (London Interbank Offered Rate.)

Qatargas is the most advanced of two active gas export projects. The second is the $4bn Ras Laffan Liquefied Natural Gas Company (Rasgas), a 70/30 joint venture between QGPC and Mobil. South Korea has signed up for one 2.6m tpa train, but Rasgas needs at least one more buyer for the second 2.4m tpa train to make it viable. South Korea, Turkey, Thailand and Taiwan have all been approached. QGPC is due to award the $2bn engineering, procurement and construction (epc) contracts this month.

Developing Qatargas and Rasgas will cost the government some $10bn. Industry sources say that "even with regular re-working of the cash projections, the net pay-back time for the government will not come until 2004".

Qatari officials are, however, looking on the bright side. "Qatar is the future centre of gravity for gas supplies from the Middle East," said Mr Abdul Redha Abdul Rahman, Qatargas general manager. He added, with an eye on the country which is the region's real gas power base: "Iran's economy is is too shaky; they will need 10 years to recover."

Relative to its neighbours, Qatar is indeed fortunate. Already rich from daily oil production of 378,000 barrels – capacity is 415,000 b/d and rising – Qatar has total proven gas reserves of well over 300,000bn cubic feet with probable reserves more than double that. Only Russia and Iran have greater quantities. Industry experts say Qatar's proven reserves make up about 5 per cent of total proven global reserves.

But Qatar, under its previous ruler Sheikh Kahlifa, missed out on the first generation of gas development and exports. By contrast, Abu Dhabi has beaten Qatar in selling gas to Europe as well as to Japan. As early as 1977, Abu Dhabi was using its own funds to develop and LNG to Japan while around the same time Saudi Arabia was investing billions of dollars in its Master Gas System. Both states were exploiting their gas reserves long before Qatar had accepted it could not survive for ever on oil revenues.

Qatar is fortunate in that, unlike its neighbours, it has a small population, some 550,000, and small domestic gas needs relative to its resources. This allows for the growing demand for gas as feedstock and power at the country's industrial zone in Umm Said.

Both Abu Dhabi and Saudi Arabia, on the other hand, are hindered from making natural gas exports on the scale of Qatar's by their rising domestic needs. Lack of investment funds and limited gas reserves keep Yemen in the second division of potential gas exporters. However, Oman is emerging as a more significant LNG exporter after signing long-term supply contracts with Asian power utilities.

Oman LNG Company, a joint venture between Oman and several foreign oil companies, has recently reached agreements with South Korean and Thai companies for the supply of up to 5m tonnes a year of Omani LNG.

The deals are the green light for a $6bn gas project which is set to add 20 per cent to the country's $5bn a year export earnings from its sizeable, but ageing, oilfields.

WORLD TRADE NEWS DIGEST

Tirana airport finance agreed

Germany is to finance the DM50m ($33.7m) modernisation of Albania's only international airport, the antiquated Rinas airport at Tirana.

The financing agreement for one of the most significant development projects in Albania since the collapse of communism five years ago, was signed yesterday by Mr Carl-Dieter Spranger, German minister for economic co-operation and development.

The project has been delayed for more than two years by Albania's unwillingness to accept the terms for commercial project finance negotiated with a consortium comprising Berliner Bank, Kreditanstalt für Wiederaufbau, the German state-owned development bank, and Hermes, the German export credit agency.

The offer of development aid follows a visit late last year to Bonn by Albanian President Sali Berisha. Albania is to receive a 40-year loan with an interest rate of 0.75 per cent.

The airport contract was awarded over two years ago to a consortium led by Siemens, the German electrical engineering group. Civil engineering work will be carried out by Walter Bau, the second largest German construction group.

Siemens said yesterday that work would begin immediately on renovating the runways and aprons.

Airfield lighting and navigation systems will be installed to meet international safety standards. There will also be new meteorological equipment as well as communications and power supply systems.

Air traffic to Tirana has increased rapidly, but the facilities at Rinas are inadequate to cope with the influx of new airlines and rising passenger numbers, which have jumped from 30,000 in 1990 to around 200,000 last year.

The existing airport was built to a Russian design in 1957.
Kevin Done, East Europe Correspondent

Chinese seek turbine bids

China is to invite bids from foreign companies for 26 turbine generators with a capacity of 700MW for the Three Gorges dam project. A tender for the first 12 generators is to be held in the second quarter of the year, but no bid dates have been announced for the remaining 14.

According to Xinhua news agency, more than 10 companies including South Korean, Japanese, Russian, German and US groups have expressed interest. The generators are expected to go into operation in 2003.

Construction of the world's biggest dam, costing 146.8bn yuan ($17.7bn) from 1993 to 2003, officially began in December 1993.
Tony Walker, Beijing

China tops dispute league

China had more trade and investment disputes between its companies and foreigners than any other country in 1995 because of its poor legal system and ineffective government supervision, Shanghai's Business News reported yesterday.

The China International Economic and Trade Arbitration Commission handled 902 disputes involving 45 countries last year, more than any other arbitration body in the world, the newspaper said.

Zhu Jianlin, the commission's secretary general, said the 1995 figure compared with 829 disputes in 1994 and more than 400 in 1993. Some cases involved more than 100m yuan ($12m) with the biggest worth Y5.7bn ($53.7m).

The Business News said there were disputes with Nigeria, Brazil and Israel for the first time. Zhu said disputes involving foreign trade accounted for 30 to 40 per cent of the total and disputes involving Sino-foreign joint ventures about 20 per cent. The rest concerned machinery imports, property, securities and technology transfers.
Reuter, Shanghai

Open skies talks planned

Australia and New Zealand are to re-open negotiations on an "open skies" agreement. Plans for such an agreement were abruptly aborted in late-1994, when Australia unilaterally denied Air New Zealand the right to fly domestic Australian routes.

The Australian government cited disputes on customs and visa arrangements, but many observers believed that the real aim was to protect Qantas, the Australian airline, in the run-up to its privatisation.

Australia and New Zealand have had a free trade agreement for manufactured goods and most services since 1990, but progress on furthering this – through harmonisation of standards, customs procedures and other measures – has seemed to lose momentum in recent years.
Nikki Tait, Sydney

Maverick billionaire could take votes away from Republican candidate

Perot rains on Dole's victory parade

By Jurek Martin in Washington

US ELECTIONS
November 5

It has never come easy for Senator Bob Dole and Tuesday night was no exception. Even as he was celebrating success in four more primaries, in the process virtually assuring himself of the Republican Party's presidential nomination, the word came out of Texas that Mr Ross Perot was raining on his victory parade.

The majority leader, in a late night TV interview, freely acknowledged he was disturbed at the prospect that the electronics billionaire would run again, as he did in 1992, when he took 19 per cent of the popular vote. "It does concern me. He helps Bill Clinton," Mr Dole said, "and he's got a lot of money."

Mr Perot, notoriously difficult to read, has blown hot and cold for months about entering this year's race, but his remarks on Tuesday to a San Antonio radio station were definitely on the warm side of the divide.

He said he would "do whatever it takes to put our country's house in order." If his own largely self-financed Reform Party, already on the November ballot in five states and petitioning to get on all 50, asked him to be its presidential candidate, "I would give it everything I have," he said. Certainly his party answers to no other man. Mr Dole countered by saying Republicans had now adopted many of Mr Perot's positions, from balancing the budget to lobbying reform. "I would say, Ross, what else do you want? If you want a reform party, you've got it."

Victory celebration: Bob Dole and his wife after this week's clean sweep — Reuter

Yesterday, Mr Pat Buchanan, who got a better-than-expected third of the vote in the Michigan and Wisconsin primaries, again warned that the Republican Party had better heed the concern of "the Perot voters." The conservative pundit said "if we don't get them back, we lose."

A political marriage between Mr Perot and Mr Buchanan looks improbable, given their differences on so many issues, though both appeal to similar blue collar constituencies. In 1992 the Perot vote was drawn equally from Republicans and Democrats, but, as Mr Dole acknowledged, the Texan's strength now lies clearly more on the right than the left.

There were other concerns underneath Mr Dole's Tuesday sweep of the midwest, beyond the fact that Mr Buchanan did better than the 25 per cent he won in Michigan in 1992 in his fight against President George Bush. Exit polls in Ohio, Michigan and Illinois showed about 40 per cent of Republican voters believing that Mr Dole had no new ideas. A similar percentage thought he would lose to President Bill Clinton in November. Voter turn-out in all four states was very light, in some states little more than 10 per cent.

Nor did the exit polls find any consensus as to who the majority leader should choose as a vice presidential running mate. Ohio preferred retired General Colin Powell, whereas Michigan opted for its own Governor, John Engler. In Illinois and Wisconsin, Gen Powell, who insists he is not available, and the two popular state governors, Messrs Jim Edgar and Tommy Thompson, ran about even.

Mr Dole did not formally claim the nomination because precise delegate counts vary. Some tallies give him more than the 996 needed, others a handful short, with delegates won by ex-candidates who have endorsed the majority leader still nominally assigned to their first choices. But victory in California next Tuesday, with 165 delegates at stake, should end all vestiges of doubt.

Swing voters fail to give Buchanan big enough lift

By Patti Waldmeir in Washington

Swing voters in the industrial Michigan suburb of Macomb County, the so-called Reagan Democrats, appear to have voted strongly for Mr Pat Buchanan, the conservative commentator, in Tuesday's primary election.

Though Mr Buchanan saw his campaign for the Republican presidential nomination all but end this week, he celebrated his strong showing in Macomb. He said he planned to speak for the voters of Macomb and other swing voters at the Republican party's summer convention.

Mr Buchanan did not win outright, even in Macomb County. Senator Bob Dole, the presumptive nominee, scored 45 per cent of the vote in this blue-collar suburb of Detroit, but Mr Buchanan finished close behind with 41 per cent.

Statewide Michigan exit polls showed that half those who voted for Mr Buchanan called themselves "independents," a class of voter strongly represented in Macomb.

Over half of his supporters said they had chosen independent candidate Mr Ross Perot in 1992.

But 43 per cent said they had voted for President Bill Clinton, making Mr Buchanan the clear choice of the Reagan Democrats, blue-collar voters who have abandoned the Democratic party in the past to vote for a Republican.

The support of such swing voters is viewed as being crucial to being able to secure victory in the US presidential election in November.

Californian utilities move to deregulate

By Christopher Parkes in Los Angeles

California's two top electricity utilities plan to spin off or sell to outsiders about half their fossil fuel generating capacity in a move towards deregulation of the US power industry and lower prices for consumers.

Southern California Edison, which produces more than a quarter of the state's electricity, and Pacific Gas & Electric, accounting for 12 per cent, will dispose of plant with annual sales of some $3bn (£1.9bn) at today's prices. The power stations involved – nuclear and hydroelectric are excluded – generate about 15 per cent of California's electricity.

The disposals, precursors of a wider restructuring involving the industry's number three, San Diego Gas & Electric, and the handful of smaller generators, signal the first material changes this century in the US electricity industry, which is dominated by regional monopolies.

California, where electricity prices are about 50 per cent higher than the US average, has led the drive to market liberalisation demanded by federal legislation passed in 1992.

Urged on by a government eager to sharpen the state's competitive edge, the Power Utilities Commission, which is responsible for the orderly introduction of free market conditions, has set a tight timetable under which industrial users will be able to buy power at open market rates in 1998 and consumers will be able to shop for best buys by 2003.

Edison has already promised to reduce household prices by 25 per cent on the first day of the new century. California's progress is being keenly watched in other states, which responded favourably to last December's first step: the creation of a wholesale power pool into which generators will sell electricity and establishment of an independent distribution company.

The distributor, which will lease power-line capacity from the generators, will buy supplies on an hour-by-hour basis from the lowest-cost producer.

San Diego Gas & Electric, situated close to the Mexican border, is expected to try to gain market advantage through cheap electricity imports, although this advantage is likely to be diluted as other US states deregulate and interstate trade expands. Edison, which said it was disposing of its capacity "reluctantly", added it expected to complete the sales or spin-offs by the end of next year. Target date for Pacific was 2003, the deadline for complete market deregulation.

It was not clear much the utilities expected to earn from assets with an estimated book value of $1.5bn.

Under a compromise deal protecting the generators' investments in nuclear capacity – judged uneconomic in free market conditions – and compensating them for statutory obligations to use and research alternative power sources, consumers will be required to pay a special supplement to monthly accounts until 2005.

US bank fraud duo arrested by FBI

Signet Banking, NationsBank and a number of other banks may have been duped out of tens of millions of dollars in fraudulent loans by two people who claimed to be employees of Philip Morris, US officials said, AP reports from Richmond, Virginia.

Signet first disclosed on Tuesday that it had apparently lost $81m in the scheme. NationsBank said yesterday it could lose up to $60m, depending on recoveries by authorities, but that it had adequate reserves to cover its exposure in the case.

According to an FBI affidavit, Signet, NationsBank and other banking companies, including CoreStates, Bank of Montreal, Hitachi American Credit, Credit Anstaldt and Long Term Credit Bank of Japan approved loans totalling $323.5m.

FBI agents arrested Mr Edward J. Reiners and Ms Judy Rose Bachiman in Rye Brook, New York, on bank fraud charges on Tuesday in connection with the case, said Mr Robert W. Jaspen, an assistant US attorney in Richmond.

Mr Reiners, 51, and Ms Bachiman, 38, could face up to 30 years in prison and a $1m fine if they are convicted of the charges, Mr Jaspen said.

Mr Reiners is a former Philip Morris employee and had done business with one of the bank officials involved in the alleged scam when he was with the company.

Signet was willing to participate in only $51m worth of loans and offered the other financial institutions the opportunity to pick up the rest.

The loans were granted to finance supposed computer equipment leases through a Richmond computer leasing firm, according to a statement from the US attorney's office. The banks believed the computers were going to be used by Philip Morris for research, the statement said.

The FBI said the accused used Philip Morris stationery and posed as company officials when applying for the loans. Both appeared on Tuesday before a US magistrate in the Southern District of New York.

Signet said it was "assessing the potential for loss under its $81m exposure." Signet is an $11bn banking company with offices in Virginia, Maryland and the District of Columbia.

NationsBank, a $187bn banking industry giant based in Charlotte, North Carolina, said it had discovered apparently fraudulent documents on Friday, investigated over the weekend and referred the case to the FBI on Sunday.

Cars help boost retail sales in US by 0.8%

By Nancy Dunne in Washington

The US commerce department yesterday said American consumers returned to car showrooms last month, boosting motor sales by 2 per cent and helping lift overall retail sales by 0.8 per cent. The figures signalled continued moderate growth in the US economy.

Although the figures were seen by analysts as proof that US customers were shopping again, after staying home during January's blizzards, Wall Street expected more.

"This report does not change the impression that the economy is on the rise again," JP Morgan said in its Data Watch update. "But it is a reminder that not all the numbers are going to surprise on the upside, and conditions for the consumer are still mixed."

EcoFax, the forecast unit of Deutsche Morgan Grenfell/CJ Lawrence, an investment bank, said the data for the first two months of the first quarter suggested that real spending on goods is increasing almost twice as fast as in the fourth quarter last year. However, its currency model is still predicting softer consumer spending.

In February new car sales, which comprise about one-quarter of total retail sales, were their strongest in six months. Sales of durable goods rebounded by 1.4 per cent. The department also revised January's 0.3 per cent drop in sales to a 0.1 per cent decline.

Sales by general merchandise stores rose by 2.3 per cent, the strongest pace in more than a year. But food store sales declined by 0.8 per cent and furniture and appliances, up 0.3 per cent, were relatively weak.

Recent US government indicators generally have signalled good news for the economy. Wholesale prices, down in February for the first time since last June, hinted at subdued inflation. The unemployment rate dropped from 5.8 to 5.5 per cent, the strongest monthly showing in 13 years. New home sales last month rose by 3 per cent, their highest rate in more than a year.

Bill sent to privatise Mexican pensions

By Leslie Crawford in Mexico City

The Mexican government yesterday sent to Congress a bill to privatise the state-run pension system, a reform which promises to be one of the central legacies of President Ernesto Zedillo's administration.

The bill paves the way for the creation of individual capital accounts for each worker, which are to be managed by private pension fund management companies. The government hopes Congress will approve the law by the end of April to allow the new system to be up and running by mid-1997.

The privatisation of Mexico's social security system is largely modelled on Chile's 15-year-old private pension funds, although the competing and vociferous lobbies of Mexico's financial groups on the one hand, and social security labour unions on the other, have forced the government to grant significant concessions to both.

Unlike Chile, where banks were barred from the pension fund business, Mexico's financial groups – including banks, brokerage houses and insurance companies – will be allowed to set up their own pension fund administration companies. To appease Mexican labour unions, however, Mexico's National Social Security Institute (IMSS), which currently pools the savings of 9m affiliates, will also be allowed to set up its own pension fund administration company.

Foreign ownership of private pension funds will be permitted under the rules of the North American Free Trade Agreement, which groups together Canada, Mexico and the US. European or Latin American fund administrators will be allowed to set up in Mexico as long as they possess an affiliate in one of Nafta's member countries.

The government and employers will continue to make contributions to the retirement scheme of each individual, unlike Chile, where contributions are deducted solely from workers' salaries.

Mr Zedillo hopes the privatisation of the social security system will help boost the country's dismal domestic savings rate, thereby reducing Mexico's over-dependence on foreign capital flows to finance economic development.

Chilean pension funds manage assets worth $25bn, about 40 per cent of gross domestic product, and are commonly credited with playing a central role in more than doubling domestic savings over the past 15 years to 27 per cent of GDP, which in turn has delivered one of the fastest growth rates in Latin America.

By contrast, Mexico's domestic savings rate fell below 16 per cent of GDP last year, a level considered too low to spearhead significant economic growth.

Cavallo acts to boost Argentine economy

By David Pilling in Buenos Aires

Mr Domingo Cavallo, Argentina's economy minister, yesterday announced several measures aimed at lowering interest rates and encouraging consumer spending, following pressure to spark the stagnant economy into life.

The measures, which could cut interest rates by 2.5 per cent, were not interventionist, but showed the "government was committed to maintaining and deepening [free-market] reforms," he said.

They included scrapping a 2 per cent tax on bank income, and halving value-added tax levied on fees associated with consumer loans. VAT on first-time house sales would also be halved to 10.5 per cent. The package "would significantly cut the cost of credit to families" and produce a "big reactivating effect".

Mr Cavallo repeated his conviction gross domestic product would grow by 5 per cent this year, despite indications the economy had contracted for the fourth consecutive quarter in the first period of 1996. Growth would thereafter be "strongly positive," especially in the second half, he said. The Broda economic consultancy recently revised down its 1996 growth forecast to 2 per cent.

Yesterday's measures follow attacks on economic policy by unions, the Catholic church and some business leaders. All have complained at Mr Cavallo's apparent impotence in tackling recession and unemployment.

Union leaders said yesterday they had suspended a general strike planned for 26 March after reaching agreement with the government on a "social truce". This would give unions an advisory role in economic decision-making and put a six-month halt to public-sector job cuts, they said. Mr Cavallo denied there had been any such "social truce," saying the strike had been lifted because of lack of support.

Mr Cavallo, who has endured a withering of his ministerial responsibilities in recent weeks, yesterday dodged questions of a political nature, lending weight to suggestions that he has agreed to adopt a more technocratic role. Asked about details of plans to slim the state bureaucracy – once firmly within his remit – he said this reform was being handled by Mr Eduardo Bauzá, the cabinet chief whose power has grown at Mr Cavallo's expense.

Referring to his clash last week with President Carlos Menem over plans to negotiate economic policy with unions, Mr Cavallo denied there was a personality rift.

Bail-out revives doubts over Brazilian banks

Losses at government-controlled Banco do Brasil raise questions about political interference, reports **Angust Foster**

In the words of its own advertisements yesterday, the "moment of truth has arrived" for Banco do Brasil.

Latin America's biggest bank, which is 51 per cent controlled by Brazil's government, had just announced the largest loss in its history and a capital injection of R$8bn (US$8.2bn) to bail out its balance sheet.

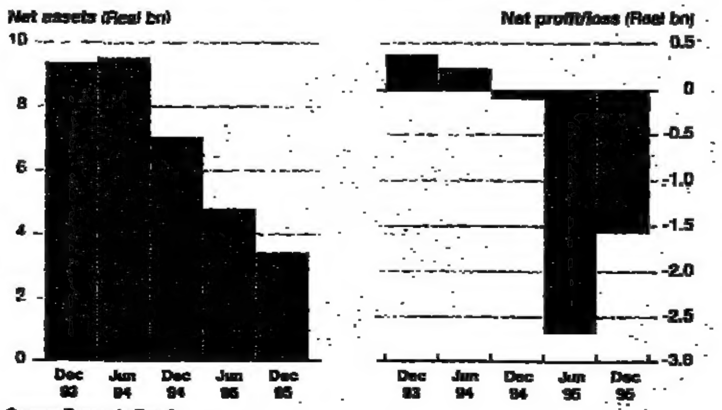
For Brazil's banking system, and for the government, the moment of truth was a painful one. The bank's losses, although expected, cast more doubt on the resilience of Brazilian banks now profits from inflation have fallen, while bailing out the bank will further strain the government's budget deficit.

Brazil's banking system has been in trouble since 1994, when a sharp fall in inflation closed the tap on many banks' main source of profits. Two of the country's 10 largest banks have since hit liquidity crises, and Banco do Brasil is the third big state-owned bank to face an expensive restructuring.

Banco Nacional, a large private sector bank taken over by a rival, added to the worries when a multi-billion dollar fraud was unearthed in its accounts earlier this year.

Banco do Brasil, which is a hybrid between a commercial and development bank, has also suffered because of its political importance.

Banco do Brasil: the troubles mount



Source: Banco do Brasil

The bank has been used by successive governments to provide credit to bad-risk public sector companies, and subsidised credit to farmers. Its 3,000 branches are spread around the country often for political motives and sacking staff is difficult because of political opposition.

Critics say the doubts about Brazil's banking system will not be resolved until this political interference is outlawed.

But President Fernando Henrique Cardoso has shown little commitment to such controversial measures and the government insisted yesterday it would not let its shareholding in Banco do Brasil fall. "There's no point in talking about privatisation if the bank is not in a good condition," said Mr Pedro Parente, a finance ministry official.

Most analysts agree that Banco do Brasil is far too important for the government to allow it to fail. The country's largest private sector banks, like Bradesco and Itaú, are also seen as strong bulwarks against a systemic crisis.

But until structural problems at banks such as Banco do Brasil are resolved, doubts about the whole banking system will continue. The uncertainty could also spill over into the wider economy if banks tighten credit, thereby frustrating the government's hopes of strong economic growth in the second half of the year.

Banco do Brasil

- **1808: Founded as a central bank, the fourth in the world to issue national currency.**
- **1964: Central banking functions handed to Banco Central. Banco do Brasil continues role as development bank and government agent in overseas transactions.**
- **1986: Expands into investment banking, and consumer credit.**
- **1994: Brazil's new Real currency brings inflation down sharply, spelling trouble for bank profits**
- **1996: Bank announces first loss since 1964 switch, and one of largest in Brazilian history. Restructuring programme and R$8bn capital injection announced.**

New management at the Banco do Brasil, which took over last year, has been making some progress to lower costs.

A voluntary redundancy programme has reduced staff levels by 25,000 to 94,000. The restructuring plan announced yesterday will introduce other important changes.

The bank's credit policies, whose slackness led to bad debt provisions of R$3.77bn last year, are to be overhauled.

Credit decisions will be taken by committees rather than individuals. The bank's minority shareholders will also be given a slightly louder voice in its administrative and fiscal boards, and the bank announced plans to invest heavily in automation and technology to compete against its more agile private sector rivals.

But the bank's operating costs are still twice as high as some competitors and closing any of its 3,000 branches this year will be made difficult by political opposition ahead of October's municipal elections. As an indication of the slow pace of change, Mr Parente said the bank was likely to record a further loss in the first half of this year. The bank said losses in the first two months alone reached R$985m.

The government will have to inject R$5.1bn as its share of the capital restructuring. It intends to meet more than half the bill by selling shares in other state companies to the bank. The direct cost to the government will therefore be only R$2.2bn, but will add to fears that, after last year's biggest budget deficit since 1989, spending controls are too loose.

A more immediate concern is a congressional battle between the government and opponents, who want to set up a Senate investigation into the banking system because of the Banco Nacional fraud. The government is trying to block the inquiry getting off the ground in case it holds up other reforms in Congress.

Banco do Brasil's problems may fortify government arguments that an investigation could undermine confidence in Brazil's financial system. The government appeared to have stalled an opposition attempt to launch the investigation's hearings last night.

Despite the government's determination not to reduce its shareholding in Banco do Brasil, there is an intriguing possibility it could see its control diluted anyway. Under Brazilian law, non-voting preference shares in companies which do not pay dividends for three years earn the right to vote.

Banco do Brasil's last dividend was paid for the first half of 1994, suggesting it must return to profit by the first half of next year. One analyst said it was very unlikely the government would allow a dilution in its control, which would fall to 29 per cent if all shares had voting rights.

Names' leader protests at US lawsuits

By Ralph Atkins, Insurance Correspondent

Legal action being pursued by US state securities regulators on behalf of lossmaking Lloyd's of London Names sparked an angry reaction yesterday from a leading Names' representative in the UK.

Sir David Berriman, chairman of the Association of Lloyd's Members, said his members were "horrified" at the possible consequences of the cases brought against Lloyd's in a number of states including California. If US Names – individuals whose assets have traditionally supported Lloyd's – succeeded in blocking payments demanded by Lloyd's and were compensated for losses, "it could potentially pull Lloyd's down," he said.

Sir David said he had faxed the American Names' Association to urge that it "finds a way so that those who wish to go on underwriting can go on underwriting and those that wish to accept R&R can accept R&R". R&R is the Lloyd's "reconstruction and renewal" programme, and Sir David was speaking at an association conference about it.

The US actions are proving a big headache for Lloyd's as it seeks to implement its recovery plan by this summer. But the insurance market has won support from state insurance commissioners who are concerned about the impact on local policyholders of the securities regulators' claims that investment in Lloyd's was missold. Mr Chuck Quackenbush, California's insurance commissioner, has warned that freezing Lloyd's assets could jeopardise the insurance of more than 19,000 businesses and leave some insurance companies technically insolvent.

Together with Mr Edward Muhl, New York superintendent of insurance, Mr Quackenbush is brief other insurance regulators at a conference in Michigan this weekend.

Separately, Mr Ron Sandler, Lloyd's chief executive, told the association conference that he believed Department of Trade and Industry approval was "close" for Equitas, the large reinsurance company into which Lloyd's plans to transfer billions of liabilities on policies sold before 1993 as part of its recovery plan.

Lloyd's has decided not to seek extra capital from external investors to boost Equitas' claims reserves as part of its application to the Department of Trade and Industry. A decision has yet to be taken on whether extra funds might be sought separately to bolster the solvency of Equitas.

Lloyd's is expected to receive a further boost next week with the publication of a Names' "validation" report on its recovery plan, compiled with the UK law firm Slaughter and May. This is expected to support the thrust of the plan.

Sir David, who is part of the validation group, told the conference that if Equitas ever became insolvent, it was likely a deal would be struck with creditors – the policyholders – so that they received a proportion of their claims. There would be no need to pursue extra funds from Names.

Railway's soccer decision sparks anger

Financial Times Reporters in Newcastle upon Tyne, London and Bucharest

The train company operating services in north-east England yesterday provoked criticism from Newcastle upon Tyne city officials and local business groups by saying it would not actively promote train travel to Euro 96 soccer matches.

Regional Railways North East, which runs trains between the Scottish borders and much of north-east England, said it would not be able to cope with the demand which might result. "Some train operators are actively promoting their services," said a spokesman. "We don't have that capacity." The company is one of several carved out of the national state network in the run-up to privatisation.

But Mr Tony Flynn, leader of Newcastle city council, condemned this response as "very negative" at a time when other organisations were striving to maximise the championship's commercial possibilities. The council is using Euro 96 as a big opportunity to promote tourism in the area.

Miss Sue Wilson, chief executive of The Newcastle Initiative, a private sector grouping of business people and academics, deplored the company's attitude on Euro 96. "I'm absolutely appalled any organisation which ought to be part of it is choosing to ignore it."

Rail industry managers said football specials had been a very profitable sideline for the national network in the 1980s. Regional Railways NE said it would add carriages where possible by altering its maintenance programme, but could not put on extra trains because it had none available. "We don't carry extra stock in these days of streamlined railway companies," said the company, which has 200 trains.

But InterCity East Coast, which runs trains between London and Scotland, said it had arranged special trains from London to Newcastle and to Leeds for Euro 96 matches by juggling resources to make the trains available.

North West Regional Railways said it was "looking forward to welcoming visitors to Euro 96" and had produced a new series of Euro-Rover tickets for visitors.

Mr Gheorghe Fodoreanu, managing director of the Simpa Sport travel agency in Bucharest, said the decision by Regional Railways NE would not make any difference because Romanian soccer fans intended to travel in England by bus.

At least 1,000 Bulgarian football fans are expected to arrive in the north-east in June for matches against Romania and France. But most will travel to matches by bus from Leeds-Bradford Airport, said Mr Ognian Avgarski, director of Sunquest Bulgaria, a tour operator.

Government will be seen as complacent about impact of 'mad cow disease'

Evidence grows of CJD link with meat

By Clive Cookson, Science Editor

From the emergence of bovine spongiform encephalopathy – BSE or "mad cow disease" – 10 years ago until yesterday, ministers and their scientific advisers had maintained that there was no conceivable risk of humans developing Creutzfeldt-Jakob disease by eating infected meat.

The identification of a new CJD strain in young people is the strongest evidence so far that there is a link between the human and animal brain diseases – and that the government will be seen in retrospect as having been too complacent.

However, the conclusion that the ten CJD victims under the age of 42 caught the disease from infected beef is not absolutely proved. Intensive research will now be required to discover whether there is a direct link.

The main problem that scientists have faced from the start in predicting the course of the BSE epidemic in cattle – and its implications for farmers and consumers – is that the disease is not caused by a virus or bacterium but by a bizarre and poorly understood type of infectious agent called a prion.

In the 1980s no one really knew what a prion was. Most researchers now accept that it is an infectious protein particle which causes a slow "biochemical chain reaction"; it works by converting normal protein molecules in the brain into its own malignant form.

Unfortunately, prions are exceptionally stable molecules. They withstand sterilising conditions that would kill any virus.

The leading theory for the emergence of BSE in the 1980s was that it was a form of scrapie, a related disease of sheep, that had been passed on to cattle by the practice of incorporating sheep offal in animal feed. That implied immediately that the disease could pass from one species to another, and experiments with laboratory animals have confirmed that prions can sometimes – but not always – be transmitted between species.

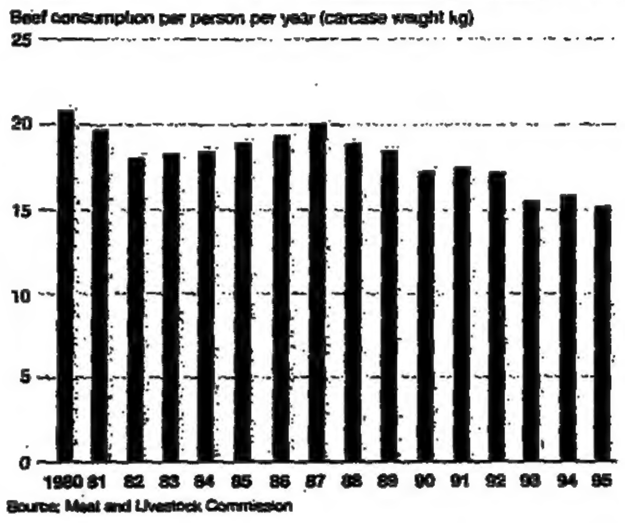
However, experts at the Ministry of Agriculture, Fisheries and Food drew comfort from the fact that people have been eating sheep for millennia without apparently catching CJD from scrapie. The most recent lab experiment, reported in December by Dr John Collinge and colleagues at St Mary's Hospital, London, was also reassuring.

They genetically engineered mice to be susceptible to human CJD, injected them with BSE prions – and found that they remained healthy. But they emphasised that the results were preliminary and should not be taken as proof that people were immune to BSE.

The other kind of evidence for a link between BSE and CJD is the epidemiology: the number of young people and those associated with the meat and livestock industry developing the disease.

Although the absolute numbers are very small – four teenagers, several people in their 20s and 30s, four farmers and an abattoir worker – they are much greater than the numbers that would be expected by chance if there were no link. CJD is an extremely rare disease – last year the UK had a total of 55 cases – and was previously unknown in teenagers.

Beef going off the menu



● The meat industry was bracing itself for a deep slump in consumer demand for beef yesterday, Deborah Hargreaves writes. "This is a disaster. It will have a devastating effect. We're really on thin ice now," said Mr Chris Wood, a farmer in north-west England with 85 beef cattle.

"It is very worrying because consumers will panic and it's a huge blow for the farming industry," said Mr Peter Bowyer, director of West Devon Meat, a west of England abattoir. Beef sales had only just begun to recover from the previous BSE scare just before Christmas when consumption dropped 20 per cent. In the month up to March 10, they were 13 per cent below the same period last year, at about 20,000 tonnes.

Cattle prices had started to recover from a 15 per cent to 20 per cent drop in December. "Now I'm expecting to see £80 wiped off an animal that would usually sell for around £840," said Mr Wood.

The National Farmers' Union of England and Wales and the Meat and Livestock Commission, the meat industry's promotional body, yesterday tried to limit the damage to business by stressing that the government had not changed its advice on eating beef. The MLC pointed out that the latest cases of CJD were among those eating beef before controls were tightened in 1989.

But with retail sales of beef at about £4bn and almost half of all UK farmers earning some income from cattle, the industry fears it could be devastated.

The Consumers' Association said the public remained to be convinced that beef is safe. "Consumers want – and need – to know if they should eat it. No one knows if it is safe. We need more information to cut through the confusion," said Ms Laura Simons at the CA.

Shares in food companies were affected by the BSE scare yesterday with Kerry down 5p to 555p; Cavaghan & Grey falling 3p to 102p; Unigate down 3p to 443p; Perkins slipping 1p to 76p; and Hillsdown down 1p to 182p.

Accounting board seeks to clarify joint ventures

Jim Kelly, Accountancy Correspondent

Shareholders are to get a clearer picture of a company's financial and strategic links with joint ventures and so-called associate companies under rules proposed yesterday by the Accounting Standards Board.

Joint ventures, in which companies share the risks of a short or medium-term enterprise, are increasingly popular but are not covered by existing rules.

Accounting for associate companies is an area that has been abused in the past.

Flexible rules allowed companies to include profits from an associate in their own accounts when business was good but to exclude the losses when business slumped.

Another abuse arose when, during a takeover bid, companies built up a stake beyond a 20 per cent threshold and treated the target company as an associate.

It could then include the target's profits in its own accounts – when it could hardly claim to be an associate.

Under the proposals, companies with associates – where the investing company holds a participating interest and exercises significant influence – would be allowed to continue showing a proportion of the associate's profits in its own accounts.

The crucial development for auditors will be the new definition of associate, which encompasses the "actual nature of the relationship", not just an arbitrary holding of the equity.

Joint ventures are defined for the first time as entities where there is joint control by contract – although that does not have to be written down. They can use the same method as associates – the so-called "equity" method.

Exchange panel supports order-driven trading

By George Graham, Banking Correspondent

A London Stock Exchange steering committee has recommended unanimously that the UK stock market should move towards the introduction of electronic order-driven trading, even though the committee was dominated by market-makers who originally opposed the change.

Mr Donald Brydon, deputy chief executive of BZW, the investment banking arm of Barclays Bank and one of the largest market-makers, said extensive consultations about an initial set of proposals from the Stock Exchange had "forced everyone to go away and think very hard about the issues".

"I think we are driven to the conclusion that there is a better way of doing it," he told the House of Commons Treasury select committee yesterday.

The full Stock Exchange board will vote today on the next steps towards order-driven trading, in which buy and sell orders are entered on a central electronic system and automatically executed when they match.

The exchange is expected to vote for order-matching for all UK stocks, rather than limiting it to the shares of the largest and most liquid companies.

But it is also expected to call for the introduction of the new trading system to be phased in gradually, and for extensive further consultation on the detailed rules governing the market.

In addition, the exchange will make it clear that a separate system for trading large blocks of shares will coexist with the electronic order book.

As in the current quote-driven system, where market-makers list prices on screen but actually deal over the telephone, or in New York's "upstairs trading", prices would be negotiated for block trades.

The unanimous vote of the steering committee represents a sharp change in attitude for market-makers such as Mr Brydon, who was described yesterday by Ms Diane Abbott, an opposition Labour party member of the Commons committee, as "a leading Luddite".

BZW's initial response to the Stock Exchange's proposals for introducing order-driven trading was to argue that no change was needed. Mr Michael Lawrence, who was dismissed as the exchange's chief executive in January, said that BZW and other market-makers had engineered a coup against him because of their hostility to his proposals for order-driven trading.

Mr Brydon said yesterday that he found Mr Lawrence's account of his dismissal "very difficult to reconcile with the reality".

"The suggestion that there was a marketmakers' coup is completely wrong," he said.

Mr John Kemp-Welch, the exchange's chairman, said that not a single member of the board had voted against the resolution to dismiss Mr Lawrence. "It's utterly untrue that a handful of members brought about or could have brought about Mr Lawrence's dismissal," he said.

UK NEWS DIGEST

Watchdog angers telecoms giant

Mr Don Cruickshank, the telecoms watchdog, angered British Telecommunications and shocked the City of London by linking consultation on new pricing proposals to fair trading provisions that the company has repeatedly said are unacceptable. The result is likely to be that, when Mr Cruickshank makes his decision on pricing and fair trading later this year, BT will reject both. Mr Cruickshank will then be forced to take the issues to the Monopolies and Mergers Commission for adjudication.

The pricing proposals, through which residential customers would save £20 ($30.60) on a £50 quarterly bill by 2001, were the latest stage in a consultative process through which Mr Cruickshank is attempting to set controls on BT's prices after the present regulatory regime ends in 1997. As a former state monopoly, BT's charges in areas where competition is weak or absent are controlled by a cap or formula, the rate of inflation minus X percentage points, which is currently inflation minus 7.5. With today's low inflation, BT is forced to cut prices to meet its obligations under the cap.

Mr Cruickshank indicated that services to be included and the value of X would be broadly similar to the existing cap. He also intended to package the pricing review with his desire to write a new condition in BT's licence giving him broad powers to identify, arrest and punish anticompetitive behaviour. He could not, he said, put a pricing regime to benefit consumers in place without the teeth to back it up. BT said it was very disappointed; the existing regime was extremely tough. Mr James Golob, telecoms analyst with Deutsche Morgan Grenfell, said: "This is hard hitting stuff. The two sides started a mile apart. Oftel has moved closer in inches rather than feet."

Alan Cane, Industry Staff

Editorial Comment, Page 11; Lex, Page 12

Car production rises

Output of cars in the UK continues to rise steadily, with an increase of 5.4 per cent to 138,874 last month compared with February 1995. The latest figures mean that production in the first two months of this year, at 274,191, is running more than 9 per cent above the equivalent period of 1995. Output for export continued to climb, with a 6.5 per cent rise to 74,424 as a result of higher sales outside Britain by BMW's Rover offshoot and by the three Japanese carmakers in the UK. The policy by Ford and General Motors of exporting UK-built cars also helped. *Haig Simonian, Motor Industry Correspondent*

State borrowing is eased

THE NATIONAL LOTTERY

Government projections for public borrowing in the current financial year would have been £1.2bn ($1.8bn) higher than stated had it not been for one-off receipts from the National Lottery, the Treasury has revealed. Amid concern among City analysts about the government's ability to meet fiscal targets, Treasury ministers have indicated that the public sector borrowing requirement for 1995-96 would have been £30.2bn had it not been for unusual cash flows created by the operation of the lottery. This contrasts with the £29bn for this year's PSBR given by the government in its Budget.

The Treasury pointed out last week that the government had received a total of £1.973bn in duties and income from the National Lottery Distribution Fund in the first 11 months of 1995-96. Some £128m of that had been spent on reallocating cash in prizes and grants. The gross impact of the lottery on the PSBR over the 11 months had therefore been to reduce the total by £1.845bn. But this figure needs to be offset by expectations that the Treasury will receive less money in indirect taxes because people buy lottery tickets rather than taxable goods. It is understood that displacement of indirect taxes amounted to about £600m this financial year.

James Blitz and Gillian Tett, London

1.6bn scratchcards sold

The UK has become the second largest lottery scratchcard market in the world – one year after the launch of National Lottery Instants. In a year's scratching, more than 1.6bn tickets have been sold, raising more than $800m for the five causes that benefit from the lottery. Only France has a larger scratchcard market – $3.28bn compared with the UK figure of $2.12bn. Camelot, the operator of the UK National Lottery, said Instants were now the UK's biggest impulse buy, more than three times bigger than Coca-Cola. Sales have however declined sharply since Instants were introduced.

Raymond Snoddy, Consumer Industries Staff

Power plan 'needs fair hearing'

Controversial plans by National Power, the former state-owned electricity generator, to convert a power station in west Wales to burn orimulsion should get a fair hearing, unprejudiced by the Sea Empress oil spillage off the Welsh coast, said the Confederation of British Industry in Wales. National Power intends to import orimulsion by tanker from Venezuela to the power station on the Milford Haven waterway where the spillage occurred. Environmentalists, who describe the bitumen-based orimulsion as a "dirty fuel", objected to the project before the Sea Empress accident and have since expressed alarm at the pollution risks of a similar spillage.

Roland Adburgham, Cardiff

Jury out in Polly Peck trial

The jury in the trial in London of Mrs Elizabeth Forsyth, an aide of former Polly Peck chairman Mr Asil Nadir, retired yesterday to consider its verdict. Mrs Forsyth denies two charges alleging she handled almost £400,000 stolen from Polly Peck. The prosecution claims the money was routed through Swiss banks to fund Mr Nadir's private business activities. Mrs Forsyth has said the money transfers were legitimate.

John Mason, Law Courts Correspondent

Deportation threat: Two men are to be deported after being found in a truck at a motorway service station in northern England after a five-day journey from Romania. The two men, aged 23 and 25, were discovered in a cargo of clothes at Birch services in Manchester. The Dutch driver knew they were on board only after hearing cries of "Let us out".

Economic recovery remains patchy

By Gillian Tett and Peter Marsh in London

The government's hopes of a rapid economic rebound still show little sign of being realised, according to economic data released yesterday.

Although retail sales rose last month, the broader consumer picture remains distinctly patchy. Meanwhile, the recent gloom surrounding manufacturing appears to be deepening, rather than fading.

The Engineering Employers' Federation yesterday warned that the recovery in engineering is on a "knife edge". Its quarterly survey showed orders from UK customers were flat and output barely increasing on three months ago.

This gloomy tone in the UK manufacturing sector has provoked growing concern at the Treasury. But judging what is happening in factories – let alone in the broader economy – is proving distinctly difficult because manufacturing data is patchy. The EEF's survey of business prospects in 1,628 engineering companies showed that the balance of companies reporting an output increase, compared with the previous survey at the end of last year, was 15 percentage points, down from 22 percentage points three months earlier.

Meanwhile only 27 per cent of businesses said they were increasing capital spending compared with three months earlier, whereas 10 per cent were cutting back.

But this tone is not reflected across manufacturing: the Central Statistical Office yesterday said that car production was at its highest level in February since the records began in 1977.

The Chancellor of the Exchequer is convinced that consumer confidence will pick up sharply this year and the Bank of England has said it expects "the pace of output growth to recover this year, led by consumer spending".

The CSO said yesterday that retail sales rose a seasonally adjusted 0.6 per cent between January and February but that followed a slump in spending in January.

Professor Patrick Minford, one of the Treasury's panel of six independent economic advisers or "wise men", has called on Mr Kenneth Clarke, the chancellor of the exchequer, to resign. Prof Minford, a right-wing supporter of the governing Conservative party, has never hidden his criticism of Mr Clarke, and especially his cautious approach to interest rate reductions.

"I hope he does resign," Prof Minford said in a talk to the Birmingham Confederation of British Industry. He was referring to the belief of some of Mr Clarke's colleagues that he may quit rather than succumb to pressure from Mr John Major, the prime minister, to back a government commitment on a single currency referendum.

Prof Minford said later he had entered the panel of economic advisers on the basis that he could say what he liked. "There is the old Lyndon Johnson thing that you should get people inside the tent so that they can piss outside," he said. "Well I am pissing whether I am inside or outside."

Growth in money supply slackens

By Graham Bowley, Economics Staff

Growth in the money supply eased last month for the first time since last autumn, official figures showed yesterday. But lending by banks and building societies rose at its fastest rate for almost five years.

The rise in lending suggested that the economy might be strengthening as companies borrow to invest. But economists warned that companies may simply be borrowing to finance their excess stocks of goods which are in turn acting as a drag on growth.

The Bank of England (the UK central bank) said that M4, the broad measure of the amount of money circulating in the economy, grew at an annual rate of 9.9 per cent last month, down from 10.3 per cent in January. Growth in the the money supply has accelerated rapidly since the beginning of last year to exceed the government's monitoring range of 3 per cent to 9 per cent.

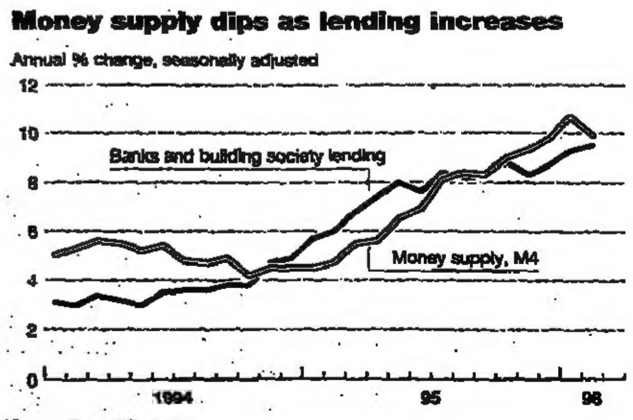
Yesterday's decline in the growth rate provided some relief for those fears, but the figures were again distorted by special factors such as government borrowing and the new gilt repo market which began in January.

Higher than usual sales by the Bank of England of UK government bonds to cover the public sector borrowing requirement in February meant that banks' lending to the public sector was smaller than expected, depressing money supply growth.

The gilt repo market continued to grow, but it had less of an upward effect on the money supply than in January. Gilt repos, which involve selling bonds for cash and are therefore included in M4, rose by £800m to £8.5bn last month. But "reverse" repos, which are in effect a collateralised loan and therefore boost lending, fell by £700m to £11.9bn.

Lending by banks and building societies grew by 9.5 per cent in the 12 months to February.

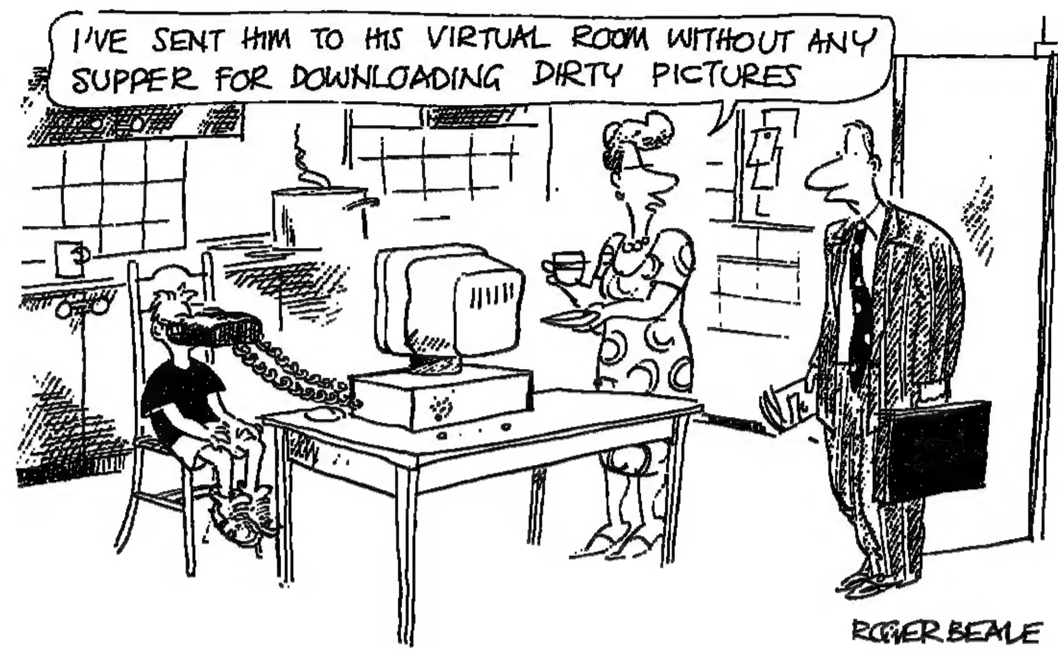
Money supply dips as lending increases



TECHNOLOGY

George Cole explores the practicalities of policing the world's biggest computer network

Censorship in cyberspace



The nightmare scenario of every government censor would probably be an information network that has no physical existence, recognises no national barriers, carries text, speech and pictures, and can be accessed by almost anyone with a personal computer and telephone line.

This scenario describes the Internet, the worldwide network of computers that has at least 35m users – some estimates are as high as 56m – linked to it.

For some, the ability to contact so many people at so many locations in the world has much to commend it: "The Internet is the first medium that allows anyone with reasonably inexpensive equipment to publish to a wide audience. It is the first medium that distributes information at almost no marginal cost," according to Bill Gates, chairman of the software company Microsoft.

But for governments concerned about the dissemination of, for instance, pornography or racist material, or which wish to control the political or religious information its citizens receive, the Net can be seen as a threat.

For this reason, governments around the world are exploring ways of policing cyberspace – the world of electronic information exchange. But how practical is this objective?

This month the Association of South-East Asian Nations (Asean) became the latest group to consider plans to regulate the Net. Earlier one of its members, Singapore, announced moves to make the country's three Internet Service Providers (ISPs), which provide computer users with an Internet link, responsible for removing "objectionable material" from Internet public forums – a form of electronic noticeboard.

Unregulated electronic information could, says George Yeo, Singapore's information minister, "undermine our values and traditions". China has also said it wants to control the Internet.

But the nature of the Net makes any form of control very difficult at best – some would say impossible. "Censors are used to dealing with physical things, such as books, magazines and videos, but the Internet is a non-physical world," says Jonathan Buckeley, managing director in Europe of the online service provider America Online (AOL).

The Internet grew out of a 1960s US defence project designed to enable university and government laboratory researchers to communicate. One goal was to create a multi-pathed computer network that could survive even a nuclear war.

As a result, there are countless electronic pathways on the Net. If one pathway is removed, data can be simply routed through another. Controlling the ISPs in one country and regulating their output does not prevent someone dialling other service providers based abroad. The only effective way of controlling Net access would be to cut off international telephone access, since this would prevent dialling to external ISPs. But this would be an unlikely option, even for an authoritarian state.

Regulation is also difficult because there is no central controlling body for the Net. Moreover, information on the Net is stored on computers scattered across the world, so it can move across many national borders before it reaches the end-user.

Another problem is the vast number of people with access to the Net, and the amount of information available online. There are thousands of newsgroups (discussion forums) and millions of Web pages (linked graphical pages): "We receive around 1.5 gigabytes of news data a day," says Steve Kennedy, business development manager of Demon, the European ISP.

This is equivalent to more than 1m A4 pages of typed text. "It would be impossible to look at the content of everything," adds Kennedy.

The problems of trying to control the Net were thrown into focus last January when Germany objected to a number of adult-oriented newsgroups available on CompuServe, the online service provider that has more than 4m subscribers worldwide. Around 200 undesirable newsgroups were identified.

But there is as yet no system that can prevent newsgroups being sent to a specific country. As a result, CompuServe had to stop all its subscribers receiving the newsgroups banned in Germany. This "blunderbuss" approach produced much outrage.

A number of Net control systems have been devised or mooted. AOL tried special software which looked for specific words and blocked newsgroups that featured them. However, one of the taboo words, "breast", not only stopped pornographic sites but also those belonging to breast cancer associations. Another problem with the word-search system is that pornographic or political forums can easily assume seemingly innocuous titles.

A second suggestion is for Net sites to be tagged with an electronic symbol which tells parents whether a site is "child-friendly" – in the same way that many video cassettes and computer games have ratings denoting their age suitability. But even if such a system were to be devised, it would require international regulation to ensure that every Internet site complied – and even then it would be almost impossible to prevent unclassified sites from getting on to the Internet.

There are some who believe that governments which attempt to control the Internet are like latter-day King Canutes, destined to be overcome by the tide of electronic information flowing across their borders. These critics suggest that control should be in the hands of the end-users, especially parents worried about what their children might see on the Net.

Some software packages, such as Net Nanny, from the Canadian company of the same name, are designed to help parents regulate their child's Internet use by blocking specific sites. However, critics suggest that as many children are more computer-literate than their parents, these packages will have a limited effect.

In February, CompuServe re-introduced almost all the blocked newsgroups and offered subscribers special software that could be used to stop specific newsgroups. The software provides users with a list of more than 6,000 sites they may wish to block.

"The introduction of parental controls lets us put the power to control and restrict content access where it belongs – with the individual users," says Bob Massey, president of CompuServe. But such an approach would not be acceptable to governments wishing to control the information its citizens have access to.

Another idea is to reverse the current trend of offering users a large number of Net sites and simply provide access to a limited number of permitted sites: "You could provide, say, a few educational or games sites and block everything else," says Andrew Burgess, product development and support manager at CompuServe UK, "but many sites provide jumping-off points to other sites. And it wouldn't stop someone calling an Internet provider in another country. Besides, such a move would severely limit the usefulness of the Internet."

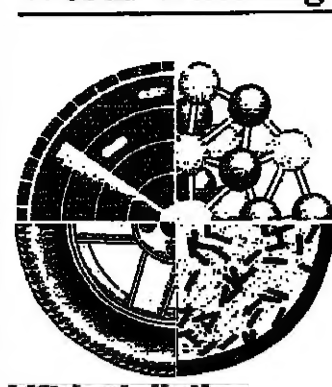
Some countries, such as the US, are using legislation to control the Net. The Communications Decency Act, passed by Congress last month, makes it illegal to transmit indecent or offensive information over the Internet, with a threat of fine or imprisonment. But the new legislation is being challenged in the courts and is essentially "on hold".

Meanwhile the UK's Home Office is currently examining how the Internet can be regulated.

Petra Gartzen, an industry analyst at Dataquest, says that politics and pornography are not the only reasons why governments want to control the Internet: "There are financial aspects, such as taxation, trade and gambling. Governments need to control their revenues."

John Gilmore, a co-founder of the Electronic Frontier Foundation, an organisation concerned with the social and legislative issues surrounding the Internet, once famously remarked that: "The Internet interprets censorship as damage, and flows around it." But despite the problems faced in trying to control the Internet, many countries will continue in their quest to tame the brave new world of the electronic frontier.

Worth Watching · Vanessa Houlder



Lift installation costs go down

The cost of installing lifts in buildings could be cut by as much as 15 per cent, according to Kone, the Finnish lift manufacturer.

It has launched a new lift that eliminates the need for a machine room by using a new type of hoisting machine which can be installed down the side of a standard lift shaft.

The manufacturer says that its approach will result in energy savings, create more rentable space, improve the design of buildings and speed up the construction process.

Kone Corporation: Belgium, tel 3226769211; fax 3226769392.

The shape of aerogels to come

Aerogels are ultralight wisps of silica with superb insulating properties. But they have so far been unable to fulfil their promise because they are extremely hard to make.

The Lawrence Livermore National Laboratory in California has developed a simpler technique that cuts costs eight-fold and the process from more than 25 hours to one hour. The technique involves injecting a mixture of ammonia, alcohol and methoxysilane into a sealed metal mould which is heated.

The new method allows aerogels to be made in precise sizes and shapes; potentially, it could allow them to be mass produced.

Lawrence Livermore National Laboratory: US, tel 510 4233107; fax 4238988.

On the mend with 'superglue for skin'

A "superglue for skin" has been developed which sticks together wounds without involving needle and stitches.

The technique greatly reduces scar formation, making it particularly suitable for facial surgery. It also seals the wound, which may reduce infection.

The Indermil adhesive was developed by the Biomedical division of Loctite UK, an adhesives manufacturer. It is a transparent glue applied through a fine pen-like applicator and a delivery system that allows surgeons to select the rate at which minute droplets of the adhesive are released using a foot switch.

Loctite UK: UK, tel (0)1707 821255; fax 01707 821200.

Optical material shows its versatility

Dutch scientists have designed a material that changes its optical properties as it absorbs hydrogen gas – switching from a transparent window to a shiny, reflecting mirror.

Researchers at the Vrije University in the Netherlands experimented with yttrium hydride and lanthanum hydride as it made the transition between metal and insulator. These materials are usually very difficult to handle, so they were covered with a protective layer of palladium.

The ability to change the materials' optical qualities rapidly and reversibly by changing the pressure of the hydrogen gas could open up new technological applications, according to a report in Nature.

Vrije University: The Netherlands, tel 204447915; fax 204447899.

Virtual reality at the dentist's surgery

Those painful moments spent staring at the ceiling while reclining in the dentist's chair could soon be a thing of the past, *writes Paul Taylor.*

A Seattle-based company called Virtual i-O has developed a cut-price virtual reality headset which helps patients relax while they watch 3-D films or listen and watch music videos.

The "i-glasses" have been installed in several UK dentists' surgeries. Germany-based Virtual Products, the European distributor, expects a further 1,500 units to be sold to UK-based surgeries in the next 12 months.

Virtual Products: Germany, tel 6251 802200; fax 6251 802179.

CONTRACTS & TENDERS

LEGAL NOTICES

PERSONAL

هكذا من الأجمل

Cinema/**Nigel Andrews**

Triumph in the toy cupboard

TOY STORY
John Lasseter

CYCLO
Tran Anh Hung

JEFFREY
Christopher Ashley

What ever happened to the present tense in human civilisation? We move so fast that today keeps vanishing in the brief intake of breath between yesterday and tomorrow.

It *seems* only yesterday that we film critics observed an inviolable ritual. We watched photochemically-made movies *before* submitting typed reviews, corrected in spidery longhand, to a sub-editor who diligently annotated them for the printers. These folk would then clatter their blocks into place so that intimacy could occur – so primal, so tactile – between ink and paper.

Now we are pinned against the wall of history by the silicon chip. This review of *Toy Story*, the world's first computer-generated feature film, comes to you by courtesy of a word processor, a modem and about a million megabytes.

Will the film critic himself be next? Reviewers can surely be replaced by pixels if actors can. And actors are, in this Disney tale of escaping toys and malicious humans. The movie hangs a "For Sale" sign not just over the traditional animation industry but over other, live-action genres. Before long horror, fantasy, science fiction and the musical will surely all rejoice to replace troublesome Equity members with the hyper-real figurines we see in *Toy Story*.

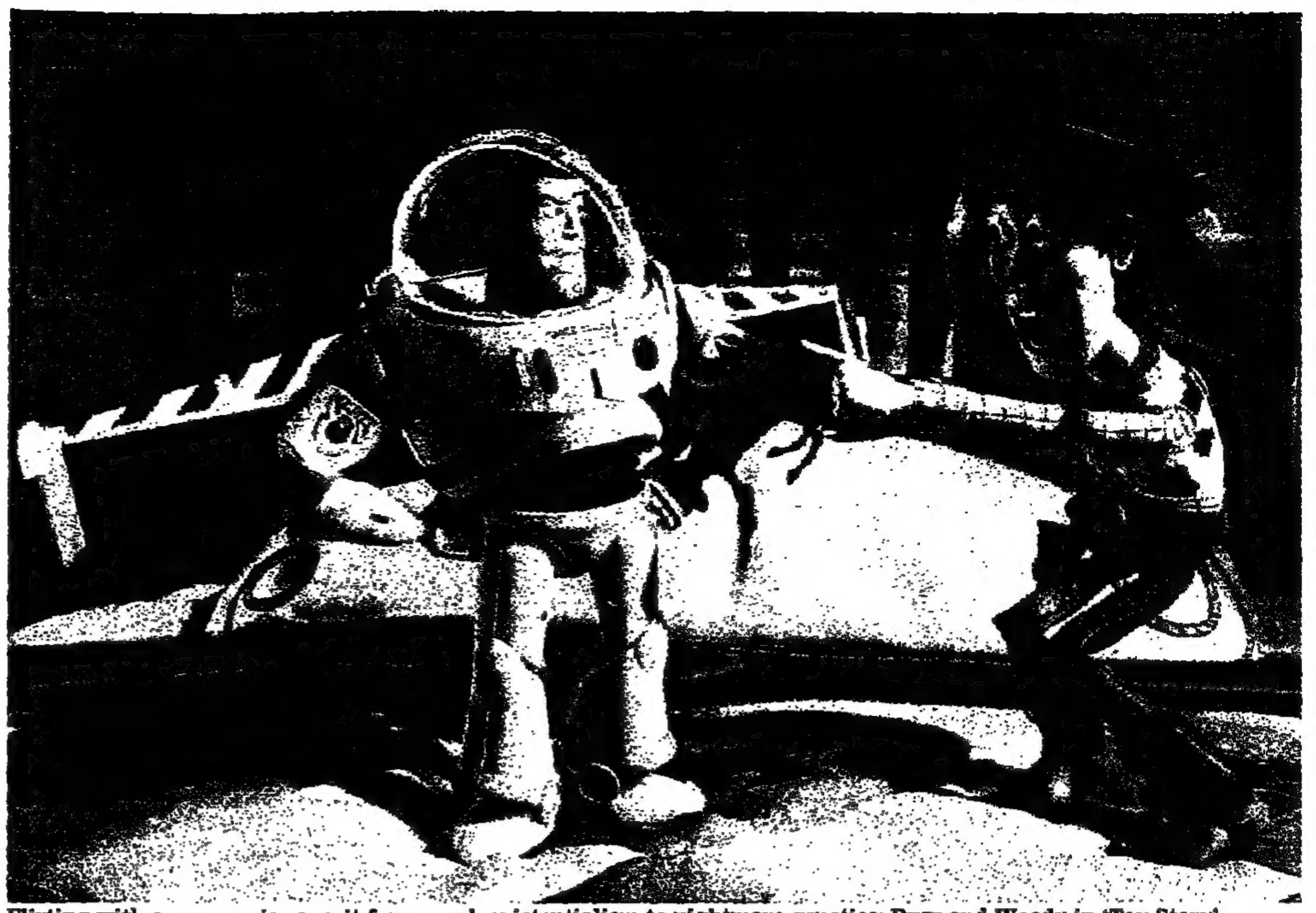
Most of these live in the bedroom of little Andy, who sets off inter-toy jealousy one day by adding a "Buzz Lightyear" astronaut doll to his collection. Aggrieved string-pull cowboy Woody, voiced by Tom Hanks, thought that *he* ruled the toy roost; no one else, such as Mr Potato Head or Little Bo Peep or Rex the tyrannosaur, had presumed to quibble. Now comes the vainglorious spaceman, dubbed with Tim Allen's dry, commanding bark, to divide loyalties, enact show-off stunts and even insist that he is not a toy at all.

For reasons even my computer could not summarise, the toy army is soon all over town, being chased by dogs, small boys and director John Lasseter's virtuosic camera. For it is not just the shapes, colours and textures of *Toy Story* that make us gape: the 3D-effect character sculpting, the finesse with lighting and highlighting, the microscopic background verisimilitude. (The very walls and furniture have minute stains and scuff-marks). The other freedom we never knew in steam-driven animation was the soaring, sweeping mobility of viewpoint.

Lasseter spent over four years on this project, having trained himself with short films and commercials, and brings the same articulately gymnastic camerawork to the animated feature that Kelly and Donen brought to the musical in *Singin' In The Rain*. *Toy Story*'s climactic chase sequence, involving a rocket, a speeding toy car, a van, a large dog and all the main characters, is as close to a vicarious rollercoaster ride as cinema can come.

Yet the film is just as graphic and entrancing in repose. As well as slapstick for children, there is sly comedy for adults. Woody suffers from "laser envy". Buzz's forearm opens up to reveal machinery labelled "Made In Taiwan". And Marcel Duchamp would be proud of the surreal scene in which Sid, the wicked boy nextdoor, grafts together different parts of different dolls, including an uproariously macabre spider/human. "I don't believe that man's ever been to medical school," says a drily appalled Buzz.

The marvel of Lasseter's film is that it has never been to any school either, save its own trial-and-error academy. In the 15 years since Disney's misbegotten *Tron* brought us the first false dawn of digital animation, both the art and its artists have grown up. Flirting with every comic conceit from mock-existentialism (Buzz's toy/person identity crisis) to nightmare genetics, the "story" in *Toy Story* is every bit as good as the toys.



Flirting with every comic conceit from mock-existentialism to nightmare genetics: Buzz and Woody in 'Toy Story'

★

It is hard to know whether to approach Tran Anh Hung's *Cyclo*, by the French-Vietnamese director of *The Scent Of Green Papaya*, in a spirit of surrender or wielding the banner "Beware the triumph of aesthetics". Images of haunting beauty and bizarreness body out this tale of a teenage "cyclo" drawn into crime in Ho Chi Minh City when his bicycle taxi is stolen.

Forget Vittorio De Sica; neo-realism went thataway. Here every character comes with a sonorously abstract title, from the hero called simply "Cyclo" to the young crime boss known as the Poet, via the hero's prostitution-recruited sister named, yes, the Sister. Meanwhile Tran's camera never merely records the action when it can caress, compose, conceptualise it.

We begin with a lingering, hieratic close-up of hands exchanging money, like a Durer drawing sprung to life. We end with a balletic, hallucinatory delirium of spilled paint. In between, a goldfish is swallowed; a bleeding nose drips deflowering red onto a white palm flower; a nocturnal apartment block is shot in fast motion, its surreally accelerated lives glimpsed through windows like frames in a film strip; and even a pair of slippers takes on a ghostly, startling beauty as the same item did in *Papaya*.

The visual virtuosity achieves two things. It causes the viewer to gape in amazement as every sequence, however downbeat its setting or subject (a hovel, a torture room, a sex tryst), is buffed into a sheeny beauty or poetic ingenuity. And it turns the human lives and emotions on display into objects no more sympathy-engaging than the slaughterhouse meat carcases (beautifully shot) in which the Poet's gang smuggle their drugs.

Like image, like movie. *Cyclo* increasingly comes to resemble two hours of dead meat with a high narcotic content. Scenes that might and probably should repel us induce instead a dazed, prurient wonderment, like the urination games the prostitute sister is forced to play by an elderly client or the torture/murder scenes in which "Mr Lullaby" sings to his victims before slitting their throats. Here we have that oldest provoking conundrum of all in art: something overpoweringly beautiful about something that should be overpoweringly ugly.

Jeffrey, by contrast, is a film of deep-down charm stuck together with tape from a Broadway comedy. Dramatising the difficulty of gay love in the Aids era, playwright-screenwriter Paul Rudnick guides his title hero (Steven Weber) through soliloquies, satirical skits and fantasy scenes, as Jeffrey hesitates at Hamlet-like length over hitching his star to lovelorn, HIV-positive Steve (Michael T. Weiss).

Director Christopher Ashley makes brief, nervous forays into opening the play out. The best of these is a surreal cutaway to a "real" cinema audience gasping at the first all-male kiss. (The approving gasps comes from the women, the outraged ones from the men). Elsewhere we accept the stagey, sketch-style rhythm simply because the sketches are funny: including a Mother Teresa chorus figure whose special talents include jamming at a jazz piano, and the gay Catholic priest whose confessional is lined with Broadway posters.

Imaginative casting gives strength in depth. Weber's lithe hero is joined by Sigourney Weaver as a hellfire guru from Sexual Compulsives Anonymous, Olympia Dukakis as the worried mother of a "pre-operative transexual lesbian" son and Patrick Stewart, traumatising all Trekkies as a queenly interior decorator.

Ballet

Alice in Wonderland

Derek Deane's *Alice in Wonderland*, which opened English National Ballet's Coliseum season on Tuesday, is a significant work. Not, alas, through any startling merit as choreography – it is a clever production, having workmanlike dances when the occasion arises – but because it indicates how a large-scale touring ballet company must earn a living in today's ludicrously funded arts world.

The way to financial viability is plain: give the Great British Public what it knows. The way to artistic credibility – which is a path Deane (as ENB's director) also seeks to follow – is the road to penury. So Deane treads a tight-rope over the abyss of inadequate subventions, with crowd-pleasing, stultifying predictabilities (such as *Alice*) set against the smaller adventures of ENB's mid-scale tours of valuable modern work, which will follow on from this Coliseum season.

In its cheery way, *Alice* is clever programming. Its title is hugely familiar – a ballet called *Coronation Street* would fill theatres for ever – and it has a score assembled by Carl Davis from Tchaikovskian sources. Deane, who has a cunning sense of theatre, has pulled every trick of transformation, every sleight of hand of scene-change, to shape a fluid, vivid action which reflects the incidents of the story. He is sufficient of a choreographer to make good roles for his soloists, and decent ensembles for his corps. In Sue Blane's skilled designs, we see the Tenniel illustrations brought to happiest life, and ENB's artists fill them with bright and by no means unworthy characterisation.

The piece is, in sum, exactly what audiences hope for, want to see, and enjoy. That it represents, on its deepest level, a calculated appeal to the lowest common denominator of public perceptions about "ballet", is simply Deane making sure that his dancers and his company survive. And I applaud him for the style with which he has pulled the whole thing off. I would not clap with even one hand for the financial and governmental policies which have made this work necessary. ENB is a strong company – and looked excellently well on Tuesday night – with a vital role to play in our balletic life. That *Alice*, as the price it has to pay for existence, is a success redounds to the company's credit. But it is a miserable reflection upon the conditions under which the company has to grub out that existence.

I reported on Alice at its first performance last autumn. On Tuesday night it looked very sleek and jolly in performance, with every trick (and there are plenty to keep the groundlings in a roar) pulled off, and every role well-played. Alice Crawford is a delightful heroine, nicely bossy when the occasion demands, and all the other characters are just as you expect to see them (Christopher Hampson a sinuously credible caterpillar). The jury at the Knave of Hearts' trial look improbable enough to feature unchanged as the hunting party in *Giselle*, and Thomas Edur keeps the flag of classic dance proudly, grandly flying as the Knave. The score sounded well under David Coleman. The audience had a splendid time. The faint whirring noise I heard was probably the future of our ballet spinning in its grave.

Clement Crisp

English National Ballet plays *Alice* at the London Coliseum all this week. *Cinderella* and *Giselle* are on view next week. *Alice* is sponsored in 1996 by Churchill Inter-Continental London.

Theatre/**Alastair Macaulay**

Well-paced Pinter

People can never be fully known by one another. This basic truth is the heart of Harold Pinter's plays. His characters, again and again, prove themselves inscrutable, unfathomable, unknowable. As we observe them, what they do or say repeatedly takes us by surprise. And it surprises other people onstage: they find themselves appalled, frightened, perplexed, wrongfooted, excited, enthralled – sometimes by apparently negligible acts.

Pinter's demonstration of the unknowability of people makes a political point: since no one can be fully known or possessed, it is wrong to try to control them. Nonetheless, people try precisely that, and it is this that gives most of Pinter's earlier plays their particular sense of menace. More than once, he shows us that it is those who would control who are actually most afraid; and he suggests that the effort to control other people actually reflects a fear of them. The freest characters are the ones who do least to sway those around them, and who assert their own mystery most surely. And the freest characters – this is too seldom remarked – are female.

It is the freedom of Ruth in Pinter's 1965 play *The Homecoming* that makes this play so alarming. Why does the heroine choose this fate? You watch, aghast. Teddy, eldest of Max's three sons, returns to his old home with Ruth, his wife (and the mother of their three sons). Max and his other sons, Lenny and Joey, keep a harsh, tense, misogynistic household – no surprise that Teddy left home – and yet, after initial apprehension, Ruth holds her own. Not only that; she takes the other sons on sexually, she agrees to their idea (obliquely stated) of setting her up as a high-class prostitute (she negotiates superior terms), and she becomes a replacement for their dead mother too.

Really this story is a Romantic/Gothic horror story: she is the loyal bride who reveals herself as the whore, and he, her betrayed bridegroom, retreats in near-archetypal Romantic agony. The play's spirit is also close to *film noir*; Ruth is not unlike the role Barbara Stanwyck plays in *Double Indemnity*.

In general, however, Pinter's style here is so laconic and so ambiguous that *The Homecoming* feels a completely original work, compelling and uniquely disturbing. Max, Lenny, and Joey all express such overt misogyny, and yet it is precisely when Ruth becomes a "tart" in their eyes that she pleases them. And as she does so, she takes control of the household. The play is frequently very funny, but what you remember is its chill. Just as Teddy is about to leave, Ruth addresses him as "Eddie". He turns. Pause. Then she says "Don't become a stranger." He walks out of the door, she sits relaxed, and his male relatives group themselves about her, Joey with his head in her lap.

The new staging by the Leicester Haymarket Theatre is excellent, and its audacious decor by Frank Flood – the play's single living room is elongated, more like a corridor – brilliantly underlines the tension of the drama. Chris Ellis's lighting also makes superb effects, often falling strongly onto Ruth's face to haunting effect. Julia Lane is Ruth, and she makes her face masklike; nothing quite brings her fully to life – she is always biding her time, and her voice is dull, out of tune – and her reserve becomes enthralling.

Ben Barnes directs with a stylisation that gives the play the force of nightmare. Lane's mystery is opposed to the brutish patriarchy of Max, in whom George Sewell rightly reveals weakness behind the bullying. Jonathan Oliver, as the spiv Lenny, is actually too sinister; it becomes arch. But Phill Curr very nicely shows how Joey is both thug and lapdog, and Andrew Rattenbury makes Teddy almost as inscrutable and free as Ruth.

★

There is much less to say about Paul Kerryson's staging of Sean O' Casey's *Juno and the Paycock* upstairs in the Haymarket Studio. Eventually, the play itself makes its impact, and certain individual scenes burst into life, especially when Nora Connolly enlivens proceedings as Maisie Madigan. But this kind of intimate play reveals Kerryson's worst flaws as a director. He treats the studio space as if it were a distant area behind a proscenium arch. Characters listen to each other as if they were stuffed, several scenes are paced as if to a metronome, and there is seldom any detail that brings things to life. Dillie Keane, in two-dimensional hangdog mode, never makes Juno seriously believable; but, as her Paycock husband, Peter Forbes steadily gains in strength.

The Homecoming continues at the Leicester Haymarket until March 23. *Juno and the Paycock*, at the Leicester Haymarket Studio, until March 30.

Theatre/**Ian Shuttleworth**

The Soldier's Song

Belfast comedy company The Hole in the Wall Gang perform a sketch which has become a local classic, parodying the archetypal Troubles play. It features a paramilitary son anguished by a case of love across the sectarian divide, a bigoted hectoring father and a supportive mother whose universal panacea is a cup of tea. It is hard to believe that Belfast-born Byran James Ryder has not seen the spoof, but his first play nevertheless features all these elements to a greater or lesser extent.

The McManus family from the Falls Road consists of son Eamon, in a Provie terrorist cell; father Jimmy, an unemployed, narrow-minded drunkard; and daughter Elaine, away from home bettering herself at Queen's University. Lynchpin of the family is mother Irene, who is intent on studying for the qualifications that would bring her a full-time job – naturally seen by Jimmy as a betrayal.

The play is set on the eve of the 1994 ceasefire, with Eamon about to go out on one of the last "jobs" before the cessation. He is given a moderately perceptive speech revealing a subconscious fear that the ceasefire will rob him of the central defining aspect of his life, but otherwise Ryder sadly fails to explore the massive extent to which that decision redrew the social as well the political playing-field.

The five central cast members perform with individual and collective diligence. Billy Carter's performance as Eamon stands out: he has the ability to suggest inner turmoil while standing immobile through another character's outburst, and copes well as Ryder's writing becomes more laboured and frenzied towards the obligatory bloody offstage climax. Anne Carroll makes the most of a mother, although Colin Tarrant never quite gets to grips with Jimmy's faltering journey towards self-recognition.

The Soldier's Song had its genesis in an audition piece – presumably Eamon's speech immediately before he leaves to commit his final act of violence. However, as a full length play it is original neither in approach nor content.

At the Theatre Royal Stratford East, London E15, until April 13 (0181 534 0310).

INTERNATIONAL

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Concertgebouw
Tel: 31-20-5730573
● *Rotterdams Philharmonisch* Orkest: with conductor Valery Gergiev, the Kirov Choir, the Rotterdams Jongenskoor, the Zaans Jongenskoor Waterland and tenor Stuart Neill perform Stravinsky's Apollon Musagète and Berlioz's Te Deum; 3pm; Mar 23

■ ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● Wiener Symphoniker: with conductor Georges Prêtre perform works by Ravel and Tchaikovsky; 8.30pm; Mar 23

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Deutsche Kammerphilharmonie: with conductor Thomas Hengelbrock and soprano Ruth Ziesak perform works by Schnebel, Schubert, Haydn and Mozart; 8pm; Mar 24
MUSICAL
Metropol-Theater
Tel: 49-30-202480
● Ninotschka (Silk Stockings): by Porter (in German). Directed by Joachim Franke, starring Ines Rabsilber, Fritz Hille, Carry Sass, Peter Renz and Wolfgang Ostberg; 7.30pm; Mar 23, 24 (3pm)
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Il Trovatore: by Verdi. Conducted by Jiri Kout and performed by the Deutsche Oper Berlin. Soloists include Amanda Halgrimson, Hermine May and Paolo Coni; 6pm; Mar 24, 28 (7.30pm)

■ BUDAPEST

CONCERT
Academy of Music
Tel: 36-1-2663108
● Budapest Concert Orchestra: with conductor Zoltán Kocsis and pianist György Oravecz perform works by Bartók, Prokofiev and Dvorák. Part of the Budapest Spring Festival '96; 7.30pm; Mar 22

■ DRESDEN

CONCERT
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Johannes Passion: by J.S. Bach. Performed by the Sächsische Staatskapelle with conductor Hans-Christoph Rademann, the Dresdner Kammerchor an der Hochschule für Musik Dresden "Carl Maria von Weber", and members of the Cappella Sagittariana and the Dresdner Barokorchester; 8pm; Mar 25

■ DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711533
● National Symphony Orchestra: with conductor Kasper de Roo, violinist Agustin Dumay and soprano Lynda Russell perform Berg's Violin Concerto and Mahler's Symphony No.4; 8pm; Mar 22

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● 100 Years of Cinema: the Scottish Opera Orchestra with conductor Carl Davis and soprano Ida Maria Turri in a programme of film music. The programme includes a tribute to John Williams, and music from Cinema Paradiso, Gone with the Wind, Doctor Zhivago and others; 8pm; Mar 23

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Khovanshchina: by Mussorgsky. Conducted by Gerd Albrecht and performed by the Hamburg Oper. Soloists include Aage Haugland and Elena Zaremba; 6pm; Mar 24

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Magic of the Musicals: an evening of music from musicals performed by the BBC Concert Orchestra with conductor Steve Brooker and guest singers Mary Carewe and Michael Dore. The programme includes music from Cats, Les Miserables, Evita, Phantom of the Opera, Sunset Boulevard, Chess, Jesus Christ Superstar, Carousel, Oliver, Copacabana, and Crazy for You; 8pm; Mar 23
Wigmore Hall Tel: 44-171-9352141
● Brigitte Fassbaender Masterclasses on Opera and Lieder: with pianist Nicholas Bosworth and vocal consultant Victor Morris; 3pm; Mar 22, 23, 24 (4pm)

■ MAASTRICHT

CONCERT
Theater aan het Vrijthof
Tel: 31-43-3293179
● Limburgs Symphonie Orkest: with conductor/violinist Shlomo Mintz perform works by Rossini, Bruch and Nielsen; 8.15pm; Mar 22, 23

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Los Angeles Philharmonic: with conductor Esa-Pekka Salonen and soprano Joan Rodgers perform Bartók's Music for Strings, Percussion and Celesta and Mahler's Symphony No.4 in G; 3pm; Mar 24
EXHIBITION
Brooklyn Museum
Tel: 1-718-638-5000
● A Slice of Schiaparelli: Surrealism in Fashion from The Brooklyn Museum: exhibition of some 50 pieces of the museum's collection of hats, jewellery, belts and other items created between 1934 and 1940 by the couturier Elsa Schiaparelli (1890-1973); to Mar 24
● The Art of Thomas Wilmer Dewing: Beauty Reconfigured: exhibition devoted to the art of American artist Thomas Wilmer Dewing (1851-1938), who was a key figure in the American "cult of beauty" at the turn of the century; from Mar 22 to Jun 6

■ ORLEANS

EXHIBITION
Musée des Beaux-Arts d Orléans
Tel: 33-38 53 39 22
● Mémoire du Nord. Peintures flamandes et hollandaises des Musées d'Orléans: exhibition of more than 100 Flemish and Dutch paintings from the museum's collection, a large part of which has never been on display before. The exhibited works were created between the end of the 16th century and the first part of the 19th century and include religious, historical and mythological paintings, landscapes, portraits and still lifes; from Mar 22 to Jun 30

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre National de France: with conductor Yevgeny Svetlanov and violinist Vadim Repin perform works by Svetlanov, Tchaikovsky and Rachmaninov; 8pm; Mar 22
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● Hélène Mercier-Arnault and Louis Lortie: the pianists perform works by Mozart and Stravinsky; 0.45pm; Mar 22
EXHIBITION
Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Passions privées: exhibition of modern and contemporary art from French private collections. The display includes some 1,100 works by approximately 400 artists. Included in the exhibition are works by Cézanne, Van Gogh, Picasso, Bonnard, Kirchner, Munch, Schiele, Picabia, Ernst, Magritte, Dubuffet and many others; to Mar 24

■ ROME

OPERA
Teatro dell Opera di Roma
Tel: 39-6-481601
● Il matrimonio segreto: by Cimarosa. Conducted by Lü Jia and performed by the Opera di Roma. Soloists include Laura Cherici, Simone Alaimo and Bruno Lazzaretti; 8.30pm; Mar 22, 24 (4pm)

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● The Chieftains: perform traditional Irish music; 8pm; Mar 23

■ VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Manon Lescaut: by Puccini. Conducted by Jan Latham-König and performed by the Wiener Staatsoper. Soloists include Elena Filipova, Anthony Michaels-Moore and Frederic Kalt; 7pm; Mar 23, 26

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10.00
European Money Wheel

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Financial Times Business Tonight

Peter Martin

An adventure in full sail

Hong Kong's success reminds us that great wealth can be created by informal relationships between entrepreneurs from many cultures and backgrounds

At this time of year the tops of Hong Kong's skyscrapers are permanently shrouded in mist. Looking out at an invisible harbour from the 45th floor provides a powerful metaphor for the veil of ambiguity which envelops the success of the city's Chinese business establishment.

The question is a simple one: what lessons should western companies draw from the success of these family-controlled businesses? Is the billions of pounds of wealth they have accumulated – in many cases within the past 15 years – the outcome of a distinctive Asian way of doing business? Or is it in large part the result of natural selection in a climate of low taxes and sustained economic growth?

The scale of the achievement is not in doubt. As one example, take this week's big Hong Kong real estate transaction. Two of Hong Kong's largest property developers – the Kwok brothers' Sun Hung Kai and Mr Lee Shau-kee's Henderson Land – won an auction to pay HK$4.7bn (£397m) for a 162,000 sq ft plot of reclaimed land in Hung Hom Bay.

The decision to bid, says one of the participants, did not require sophisticated computer modelling. Indeed, it sounds as if the arithmetic scarcely required the back of an envelope. The two developers are acquiring rights to develop 1.5m sq ft of property. They are paying HK$3,200 per sq ft for that, and once building work and interest are taken into account they will have spent HK$5,000 for each square foot of developed floor space. When the buildings are completed, in four years' time, they expect each square foot to be worth HK$6,000 at today's prices and more if Hong Kong property values outstrip the rate of inflation, as has often been the case. Even without such a bonus, however, the developers expect a profit of HK$1,000 on each of the project's 1.5m sq ft.

The transactions have all the hallmarks of a classic Hong Kong deal: a partnership between two family-controlled companies; an aggressive bet on the city's future economic prosperity and political stability; and an asset whose ultimate rewards depend largely on the efforts of others.

This last judgment may seem harsh; but it reflects the logic spelt out by one of the city's most prominent local businessmen. The real heroes of the Hong Kong economic miracle, he says, are not the big groups but some 70,000 entrepreneurial businesses which employ those who pay Hong Kong's high rents. Over the years, these businesses have done whatever is necessary to survive and prosper: shifted from import/export trade to manufacturing and then to services; from plastic flowers and textiles to fashion and electronics; from factories in Hong Kong itself to plants across the border in China. The entrepreneurs' relentless pursuit of growth and profitability has brought prosperity to them and unimaginable wealth to those of their number shrewd enough to control the essential supplies and infrastructure of the Hong Kong economy.

The success of this approach – echoed in the other tiger economies of south-east Asia – has led some to claim that a new style of Asian business is taking shape. It is as effortlessly superior to conventional western management, say its advocates, as Japan's lean manufacturing is to Henry Ford's assembly line.

The essence of Asian business, on this view, is a dependence on informal, often family, networks; quick, instinctive decision-making; the willingness to consider any opportunity, rather than an artificial restriction to a "core business"; and a whole-hearted commitment to the future. The contrast with bureaucratic, focused, cautious, analytical western businesses is a telling one.

Yet the Asian style of business is inseparable from the economic context in which it operates. In Hong Kong, for example, despite the ups and downs caused by political uncertainty, gross domestic product has grown at an average rate of more than 6 per cent a year since 1980. And as one prominent business figure points out, China's slogan of "one country, two systems" to describe how it will treat Hong Kong after the British handover in 1997 has in fact been operating informally since the late 1970s.

In such circumstances, the lion's share of economic benefits will go to the more efficient of the two systems. This stream of profit, and the sustained high rates of economic growth from which it stems, explains much of the Hong Kong style of business.

Powerful cash-flow generation has permitted families to retain control of what are now giant businesses, by limiting the need for external capital. Rapid economic growth has lessened the penalty for mistaken investment decisions, and placed a premium on acting quickly. The frictions that occasionally arise among networks of informal relationships are soothed by the prospects that even if some participants are unhappy today, all will be richer tomorrow. And in an economy where demand regularly presses against the limits of supply, the need for focus and discipline in corporate strategy is less than in maturer markets elsewhere.

So, though Asian managers undoubtedly bring different cultural experiences and values to their daily tasks, their basic approach to business may not be as different from that of their western counterparts as some of them occasionally suggest.

None the less, there are useful lessons here for western managers. First, rapidly growing markets, though often unpredictable, are much more forgiving than stable or mature ones. In principle, everyone knows this truism. But in practice, it is tempting to steer clear of unfamiliar product and geographic markets, or to downgrade their significance until the growth has actually taken place – and the opportunity has gone.

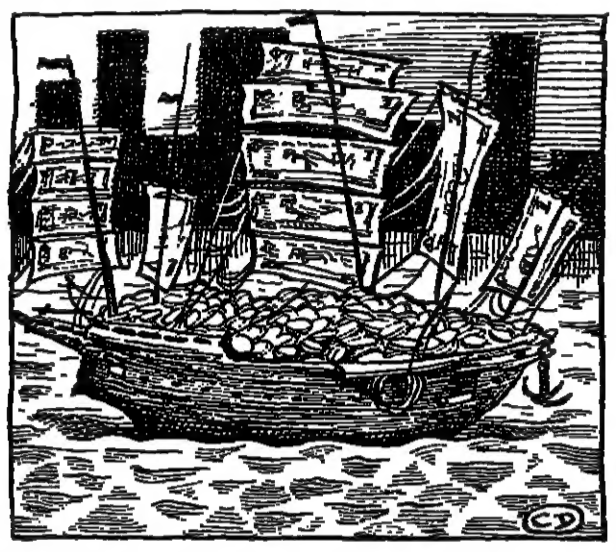
Second, it is worth learning from the emphasis of Asian managers on instinctive risk-taking and speedy decision-making. There is a danger, particularly after the trials of recent years, that western companies will become too cautious and analytical in their approach to opportunities. As a result, strategies driven by cost cuts appear more appealing than those based on expanding revenues. One paradoxical result is the triumph of the herd instinct – for example, in the Internet gold rush. Because companies are cautious, they seek to exploit only those opportunities validated by consensus, and so risk destroying them with over-supply.

A third lesson to draw from the Asian management style is the strength of informal networks of alliances. Western companies cannot hope to draw on the clan ties which are such an important element in binding Asian family groups. But they can hope to create strong but informal corporate relationships in which natural partnerships in some areas co-exist with fierce competition in others.

If western businesses have something to learn from their Asian counterparts, the reverse is also true. Few of the tigers – South Korea excepted – have produced strong international branded-goods companies, for example. The emphasis on informal networks can easily spill over into an unhealthy reliance on connections with powerful government officials. And a willingness to consider all business opportunities open-mindedly can lead to rushed and unsuitable investments in areas outside a company's true field of expertise.

In the long run, there is probably no simple way of classifying management styles by cultural origin. A high-risk, high-growth business, whatever its cultural, ethnic or geographical origins, imposes its own logic on the people who run it. The same is true for a business fending off decline.

When the mist lifts from Hong Kong's towers, it reveals a city formed by a century and a half of intertwined commercial relationships between companies of British, Chinese, Indian and other ethnic origins. The skyline, and the city itself, are reminders that wealth can be created by merchant adventurers of many cultures and backgrounds.



BOOK REVIEW · Sarah Hogg

POLITICS AND THE POUND: The Conservatives' struggle with sterling
By Philip Stephens
Macmillan, £20

The backstabbing after Black Wednesday

It was a mistake to read this book fresh from watching Mother Courage stagger from one war zone to another at the National Theatre. There is a Brechtian bleakness, relieved only by Philip Stephens' light touch, about the saga of the UK government's vicissitudes with sterling.

When the then Mrs Margaret Thatcher won the 1979 general election, the rising pound was first a symbol of victory, then (as it soared to DM5, wiping out the equivalent of one UK factory in seven), a destructive by-product of too crude a domestic monetarism. A falling pound became a matter of relief, then indifference, then (as it sank towards parity with the dollar) a political embarrassment.

Small wonder the author should quote John Kenneth Galbraith to the effect that "nothing is so admirable in politics as a short memory".

After these wild and damaging gyrations, the scene was set for the government's long apprenticeship and brief membership of the European exchange rate mechanism.

This is, in effect, two books: up to 1990, Philip Stephens is writing history, illumined by time and autobiography – the tombstone volumes of Baroness Thatcher and Lord Lawson that "explain" the explosive relationship that was ultimately fatal to both. It is an extraordinary political drama, rich in character and intrigue.

But with the story of Black Wednesday, the day that sterling left the ERM, the book breaks new ground. It is therefore, perhaps inevitably, skewed towards this later period.

"Too Late" – the title of the chapter on Britain's entry to the ERM – reflects the then Mr Lawson's failure to persuade Mrs Thatcher to enter in the mid-1980s. Certainly, by 1990, the ERM was already ossifying, making realignment much more difficult; although John Major, by then prime minister, did consider this in the autumn of 1991, the increased rigidity of the system, the nearness of an election, and remaining anxieties about inflation make it easy to understand why he did not pursue the option. But by the summer of 1992, the government was in a trap: it no longer seemed likely that a limited devaluation, within the confines of the ERM, would hold without a hike in interest rates.

Philip Stephens disposes of the now-common claim that it was "obvious to all" the central rate at which Britain had entered the ERM – DM2.95 – was too high. He points out that some of today's know-alls actually pressed for a higher central rate. As for the Bundesbank's famed scepticism, the rate officials there talked of over the weekend of entry was an insignificantly different DM2.90. Moreover, the French considered that too low; so while it is true that more consultation would have been tactful, it was unlikely to have made a difference.

Through the Treasury analysis which concluded devaluation would lead to higher, not lower, interest rates, through the chancellor's troubles at the Bath summit of finance ministers and the prime minister's dogged defence of policy to the Scottish CBI conference, Philip Stephens' vivid and damning account of the final grim phase before Black Wednesday is compelling, if not comfortable, reading. He is rare among political writers in his clear understanding of the economic arguments. There is, indeed, perhaps only one unpleasant flavour, and that is nothing to do with the author: it is the frequency with which one can detect the knives of Treasury officials being stuck into each other's backs. For all Philip Stephens' efforts to apportion criticism fairly (the stories of prime ministerial wobbles on Black Wednesday are firmly debunked), those who did not talk to the author seem to have ended up, inevitably, with an undue share of the knife wounds.

So he comes to the long, bleak struggle to create a new economic policy from the ashes of the old. There were, as he says, other causes for the government's steep slide into unpopularity, and perhaps he gives too great a weight to Black Wednesday as compared with, most significantly, the tax-raising Budgets of 1993.

But we are left with the irony that a government in deep economic trouble in 1991-92 (unemployment roaring up, forecasts sinking, double-digit mortgage rates) still enjoyed a reputation for economic competence with the voters, while today it is given the thumbs down in the polls, despite the lowest inflation and mortgage rates for a generation and three years of falling unemployment.

It is, of course, an unfinished story. Better Budget news last November is not yet in people's pockets; most forecasters (not just the Treasury) suggest a happier year for consumers than they have known since the late 1980s. And sterling? It has again become an issue, this time one of national sovereignty. I share Philip Stephens' view that no British government would seek to abolish the pound before the millennium – indeed, I would predict a longer life for it than that. Yet he ends with a world-weary confidence that there will sooner or later be another "sterling crisis", and the depth of his knowledge of the past 17 years makes him hard to contradict.

Baroness Hogg was head of the prime minister's policy unit from 1990 until early 1995

Politics and the Pound *is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside UK). Free p&p in UK*

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Important that TV chip allows parents, not others, to make choice

From Mr John C. Bailey.

Sir, Your editorial, "False promise of the V-chip" (March 19), displays the characteristic sneeze reaction of a broadcasting and publishing group to the faintest whiff of media censorship. Your quibbles about the cost or consistency of rating systems and pious observations on the inability of technology to "repair defects of parenting" are little more than a smoke-screen.

The essential feature of the V-chip is that it offers that Tory touchstone, parental choice. Initially, the choice will be whether to upgrade to a TV with a V-chip. Then, when all sets are so equipped, the choice will be whether to activate the scrambling mechanism. The crux is that parents (rather than broadcasters, politicians or politically-correct child psychologists) will make the choice.

John C. Bailey,
Hornbeam Lodge,
Harlequin Lane,
Crowborough, E Sussex, UK

Sport should be left to sell itself to highest TV bidder

From Mr Richard Tweed.

Sir, It makes no sense to say that some sports events are national institutions which must be broadcast on terrestrial television channels. Why should certain events and sports people be prevented from selling their wares to the highest bidder, as in other areas of commerce?

The broadcasting market is already distorted to benefit the BBC: everyone has to pay the licence fee, whether they watch BBC or not. Having paid the licence "tax", BBC is available "free". Now the sports market is going to be distorted so that the licence will not seem bad value.

Is it really fair to oppress fine sporting events for the benefit of the BBC? If the chancellor is looking for a tax to abolish, let him abolish the BBC tax – the licence fee. Let viewers choose which channels they want to watch, and whether they wish to pay for them, or whether they prefer to let advertisers pay for the service, and pay nothing themselves.

Richard Tweed,
10 Lyndhurst Close
Park Hill, Croydon, UK

Code needs to consider others

From Mrs Kristin E. Shay.

Sir, All right, let us not have a highway code of morals ("Morals adrift in the market place", March 9/10).

But please do let us have a more strongly emphasised code of manners based on the principle of consideration for others.

Kristin E. Shay,
45 Gunterstone Road,
London W14 9BS, UK

Justice too serious for judges

From Mr R. Ewart Crawford.

Sir, With reference to your editorial "Heed the judges" (March 8), echoing the dictum of former British prime minister Lloyd George about generals in the first world war, public outrage would now suggest that justice is too serious a business to be left to judges.

R. Ewart Crawford,
70 Abingdon Villas,
London W8 6XB,
UK

Fair to say no company ever shrank to greatness

From Mr Dwight Gertz.

Sir, Michael Prowse's column "Blame consumers" (March 18) raises a good point in reminding us of the obligation to strain every corporate muscle in order to satisfy customers.

There are, however, two ways to do this. It is right to distinguish between them.

Corporate shrinkage may be necessary in some cases but it is usually a sign that customer needs went unserved for too long. As such, it strains the muscles but often occurs too late to solve the problem.

The best corporate leaders anticipate customer needs and react quickly to surprises. Their companies take market share from their less nimble foes, grow steadily, and rarely need to shed workers. Shareholders, employees and customers are all better served by these leaders.

Growth leaders also do well for themselves. Our studies of market economies on three continents show that the best response to stock market pressure is always profitable growth, and that this growth can be achieved in any industry. Ironically, the stock market's reward for the shrinker is smaller and less durable. It is indeed fair to conclude that no company ever shrank to greatness.

Dwight Gertz, vice-president,
Mercer Management Consulting Inc,
33 Hayden Avenue,
Lexington MA 02173, US

From Dr Steve Fleetwood.

Sir, It seems to have slipped the minds of most economists, including that of Michael Prowse, that the alter-ego of the consumer is the producer. While all of us are consumers, most of us will also, at some point in our lives, be producers as well.

When, in my guise as a consumer, I demand a particular commodity, a producer somewhere has to respond. But then when this same producer, now in the guise of consumer, demands the commodity that I produce, I have to respond. Satisfying our needs as consumers means foregoing our needs as producers as we are increasingly expected to put up with a myriad of attacks on working conditions in the form of labour market flexibility, atypical working patterns and lack of job security.

In the name of consumer sovereignty, it appears, we subject each other to attacks on our working conditions. This might not, *pace* Prowse, be "a reasonable price to pay for the benefits of market capitalism". As we enter an epoch of radical labour market change, perhaps it is time to pause and reflect on our role as producers – before engaging in a race to consume each other out of decent jobs.

Steve Fleetwood,
De Montfort University,
The Gateway,
Leicester LE1 9BH,
UK

Forgiveness adds to deficits

From Mr Albert H. Hamilton.

Sir, At the risk of excessive precision, it is suggested that the proposed external debt relief plans of the World Bank and International Monetary Fund would not increase the stock of debt rescheduled at the Paris Club, but rather would raise the maximum level of debt the G7 creditor governments would be prepared to forgive ("World Bank urged to back debt plan", March 14). That level they set at 67 per cent at their Naples meeting.

As I pointed out in your issue of January 4 (Letters), debt forgiveness via the Paris Club serves only to add to the deficits of the creditor governments. While these governments piously maintain their opposition to export subsidies, obviously exports not paid for by buyers, but rather by exporters' official export credit agencies, are subsidised.

Albert H. Hamilton,
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FINANCIAL TIMES

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Thursday March 21 1996

Mad cows and ministers

The latest twist in the UK's mad cow saga will devastate producers, upset consumers and embarrass the government. While the damage to producers will be substantial, the risks to consumers still seem minimal. But the government must not be complacent. Not only will it have to offer help to producers, it must also reconsider how best to commission, transmit and employ such politically sensitive scientific advice.

The essence of yesterday's announcement was that a new form of Creutzfeldt-Jakob disease (CJD) has been identified in 10 people under 42 years of age. While there remains no direct evidence of a link with bovine spongiform encephalopathy (BSE), that is now a strong possibility. In response, the government's spongiform encephalopathy advisory committee has recommended more stringent controls on the movement of meat through the food chain, as well as further research. The government has accepted these recommendations.

Yet the advisory committee also insists that the risk from eating beef is minimal and has not changed its advice to consumers. At first glance, this seems right. Even if there were a link between BSE and CJD, it might be with meat consumed before the measures introduced in 1989. Furthermore, the proportion of the population affected by the new form of CJD is just 0.00002 per cent, fewer than perish on the roads each day.

When there is such a witches' brew of scientific ignorance and popular suspicion, however, still greater caution may be needed. Most scientists do think the risks to humans are minuscule. Others disagree. In such a situation, what should a government say and do?

The answer comes in four parts: first, it would seem quite wrong for a government to ban a foodstuff when the risks seems so small, though in making the decision it must recognise the exceptional public sensitivity to safety of food and drink; second, the government must not state or even imply that something is perfectly safe when it simply cannot be sure of it; third, research that might appear relevant to securing greater knowledge should be generously funded.

Fourth, and most important, the government must establish a system for disseminating scientific opinion that is above suspicion of any political taint. All connection between departments responsible for producers and advice to consumers must be broken. Furthermore, scientific advice to consumers should, so far as possible, not be transmitted by politicians.

At present, the government will always be suspected of a cover-up in the interests of food producers. That almost certainly imposes more damage on producers than would a less politicised approach. In the short term, the government's main concern may be how to compensate producers for the fresh damage. In the longer term, however, it must reconsider its approach to the politics of food safety.

Nato's promises

Mr Warren Christopher, the US secretary of state, has made another attempt to square the circle by assuring the ex-communist nations of central Europe that they will in due course join Nato – while promising Russia that it must also have an important place in the European order.

His statement in Prague that "Nato enlargement is on track and will happen" will go some way towards assuring the Poles, Czechs and Hungarians that Russia does not, after all, have a veto over their security arrangements. At the same time, the speech will confirm the suspicion among Russians of all ideological complexions that Nato is taking advantage of their country's weakness.

Nevertheless, the central Europeans are unlikely to be fully satisfied by Mr Christopher's promise, and the Russians will not regard the matter as settled either. There is no sign that Moscow has given up hope of indefinitely delaying a project which it views as damaging to its geopolitical interests.

It is far from certain, despite Mr Christopher's bold words, that Nato will expand. He cannot prejudge the result of the forthcoming presidential elections in either the US or Russia, or the opinion of legislatures, including the US Senate, in Nato's 16 member states.

There will be tough debates in all those assemblies, with sceptics arguing that, by incorporating a few countries, Nato may cast others into a de facto sphere of Russian influence. That is a strong argument, and it underlines the need to develop security links with those countries like Ukraine and the Baltic states which will not join Nato soon.

Because of the complexity of these debates, there is a real risk that Nato will have the worst of all worlds. It may incur considerable damage to its relations with Russia by preparing to enlarge – and then abandon the whole project through a failure of nerve.

Having raised expectations, Nato could hardly tell the candidate members in central Europe that they will not, after all, be allowed into the alliance without incurring huge loss of face. But this problem would be considerably less acute if the existing members of that other western club, the European Union, were more generous, and less beholden to their own domestic lobbies, in opening their doors.

In such an ideal world, Nato might then be able to tell candidate members that it sees no need to enlarge now – but would do so immediately if a threat were to emerge from any quarter. In practice, however, the Czechs, Poles and Hungarians would be sceptical of such a conditional promise. Having observed the west's uncertain response to Bosnia, and the selfish attitude of some EU members to expanding that club, their scepticism is understandable. Nato must respond accordingly.

Lines down

The simmering dispute between British Telecommunications and its regulator Oftel will lead to a reference to the Monopolies and Mergers Commission this summer. That is the probable result of Oftel's latest thoughts on curbing BT's prices, published yesterday.

Its consultation paper is in most respects a sensible attempt to increase efficiency and curb prices in a fast-changing but not yet fully competitive industry. Even in an industry well suited to privatisation, regulation and competition take decades to bring down prices. The average bill has fallen from £70 a quarter when BT was privatised in 1984, to £50 now, after allowing for inflation. Oftel reckons bills should fall to £30 by 2001.

In arriving at its new pricing recommendations Oftel has made important changes to past statements. In particular, it has softened its view of the return on capital which it thinks BT should earn on regulated activities. It is now looking at the upper end of the range of 9 per cent to 13 per cent, rather than the lower end. The change is welcome; it better reflects the risks facing BT.

More questionable is Oftel's proposal to introduce a cap on the wholesale prices BT charges other operators to connect to its network. This would replace the present, detailed regulation of network charges. The move might, as Oftel suggests, help reduce retail prices. However, Oftel does not appear to intend to impose similar constraints on the prices other operators charge BT; there has been concern about mobile phone operators' charges for network access. Lack of a reciprocal constraint could prove unwarranted assistance for new entrants.

Although BT yesterday expressed disappointment with these pricing recommendations, it should be relieved at the concessions it seems to have won. But the pricing formula is overshadowed by the issue of Oftel's proposed amendment to BT's licence. This would give Oftel the power to decide whether BT was acting anti-competitively. Oftel has made clear that pricing proposals stand or fall together with this plan – hence the chance that the row will go to the MMC.

There is much to be said for the licence amendment, given BT's continuing market power. However, Oftel's position would be stronger if there were a better mechanism for BT to appeal against its decisions. Appeals against Oftel decisions under this new power would be cumbersome within the present regulatory framework. To create an appropriate appeals mechanism to match the new powers would require primary legislation, which Oftel regards as politically unachievable at present. But in the absence of such legal revision, it is hard to see the MMC or the warring parties themselves arriving at an acceptable, durable solution to the licence question.

No longer the new kid

Europe's largest futures and options exchange is facing fresh challenges after 14 years of rapid growth, says **Richard Lapper**

When Mr Jack Wigglesworth and a group of colleagues sought the support of the London Stock Exchange for a new financial futures market late in 1980, they were given the cold shoulder.

After tea and cream cakes delivered by "pink-liveried flunkeys", Mr Wigglesworth, a blunt-speaking Yorkshireman, recalls: "They politely told us this was not the sort of activity we want in the City".

But Mr Wigglesworth, chairman of the London International Financial Futures and Options Exchange, now thinks the rebuff was a blessing in disguise. "It was the best favour they could have done us," he says.

Forced to rely on its own resources, the market has grown impressively since formation in 1982, consolidating its position as Europe's largest derivatives exchange.

Last month, the market traded more contracts than in any previous month. In the year to date, business is 42 per cent higher than a year ago. Average volumes are currently running at 762,492 a day compared with fewer than 30,000 contracts a day 10 years previously.

Liffe's style, epitomised by the brash colours of its floor traders, has always contrasted sharply with the sober suits of the Stock Exchange and the rest of the City. In recent months, a similar contrast has been evident between the fortunes of the two institutions: while the exchange has sacked its chief executive, Liffe has gone from strength to strength.

Top 10 exchanges

Millions of contracts traded (nearest million)

Position 95	Exchange	1995	1994	Annual % change
1	Chicago Board of Trade	211	220	–4
2	Chicago Mercantile Exchange*	182	205	–11
3	Chicago Board Options Exchange	179	184	–3
4	Bolsa Mercadorias & de Futuros (Brazil)	149	110	+35
5	London International Financial Futures Exchange	133	153	–13
6	Nymex**	73	79	–7
7	Matif	71	93	–24
8	Deutsche Terminbörse	58	59	–2
9	American Stock Exchange	52	48	+8
10	London Metal Exchange	47	48	–1

Source: Futures & Options World (according to calculations of Futures Industry Assoc.) *Includes Comex

Liffe is poised to make further strides in the next few months when new trading links with the giant Chicago Board of Trade and the Tokyo International Financial Futures Exchange are due to come on stream. The market's merger with the London Commodity Exchange, Europe's largest commodity futures market, is also set to come into effect later this year. The links should allow Liffe to offer a wider range of contracts and help it to increase its overall efficiency.

Liffe's importance in the City is gradually being recognised. Mr Anthony Belchambers, chief executive of the Futures and Options Association, a derivatives trade body, says the market is "no longer the new kid on the block" and is "now more of an institution". Mr Wigglesworth, meanwhile, describes it as the "fourth pillar" of the City, alongside the stock exchange, the Lloyd's of London insurance market and the Bank of England.

The market's success owes much to timing. Its launch in 1982 coincided with the liberalisation of international capital flows and rising volatility in bond, money and equity markets. These trends increased the demand for financial futures and options – derivative products based on the performance of an underlying bond, share, index or currency rate – which are used by investors either to speculate on or protect themselves against moves in the markets.

"It was easy in hindsight because there was a natural demand. But getting something like this together was a tall order and they had the initiative," says Ms Rosalyn Wilton, a Liffe board member in the late 1980s who is now with Reuters, the international news and financial information group.

The market has also benefited from its consistently opportunistic approach. It has often stolen marches on its European competitors, beginning trading of futures and options contracts in German and Italian government bonds, for example, before the formation of domestic derivatives exchanges in either country. "It seized the high ground in being the first European financial futures exchange," says Mr Belchambers.

Mr Daniel Hodson, chief executive, says that by providing a market for large banks and brokers to hedge their risks, Liffe has helped make London a magnet for international trading in over-the-counter derivatives (deals done by banks and securities houses direct with their commercial customers outside the framework of an exchange).

Last year London was the biggest market in the world for interest rate and currency swaps, two of the commonest forms of over-the-counter transaction. Average daily volume amounted to $18.53bn and $1.42bn respectively – more than a quarter of the international total – according to Swaps Monitor, a New York trade publication.

This year's buoyant volume figures indicate that growth is again picking up after a hiccup last year, when turnover declined by 13.3 per cent. The fall was partly in response to the Barings crisis, which led many firms to rein in their trading activities. Lower volatility in world financial markets, which reduced demand for derivatives products, was another contributing factor.

Growth had averaged 50 per cent a year between 1982 and 1994. In 1994, its record year, invisible earnings generated by the market amounted to £750m, according to its own figures.

Yet despite this bright picture, two sources of tension within the market are increasingly evident.

First, there is disagreement among exchange members about the cost and desirability of further expanding the trading floor.

Liffe only moved into its headquarters at Cannon Bridge in 1991. But it is already taking steps to increase space for additional floor traders. These are needed to trade new contracts listed at the market in recent years, as well as to cope with the increased volume.

Last year the market agreed to rent two floors of the Stock Exchange's headquarters, including the floor vacated by the exchange shortly after Big Bang in 1986. Now it is again building up funds for a move to bigger premises.

The size of the expenditure which might be required for the expansion – put by some at as much as £280m ($429m) – is reviving demands among some Liffe members – in particular bigger banks with large floor staffs – for a more rapid move towards electronic trading systems. At present, most dealing at the exchange still takes place through the so-called "open outcry" system of face-to-face dealing. Electronic trading is largely confined to a 90-minute period after the trading floor has shut down.

These banks argue that in order to contain costs more trading should be done electronically. In particular they think that some new products, such as the Euroyen contract to be introduced this year, should be traded exclusively by electronic means.

This argument over the best method of trading has spilled over into current discussions about how Liffe should use its reserve funds of between £110m and £120m. These have been built up through a charge levied on each contract traded and fees paid by members.

Last year the market handed back a rebate of £30m to members. But some members, thought this was not enough.

Mr Hodson argues that the retention of a substantial reserve is justified as a contingency fund to allow the market to continue in an emergency and to finance new premises.

Not everyone agrees. "We simply don't need to be amassing this great war chest for a future floor," says Mr Alex Cooper, floor manager for Crédit Lyonnais Rouse, the futures subsidiary of the French bank. Another banker says: "Liffe is a very good successful exchange but it may not be if we treble the size of the floor."

The second source of tension affecting the market is linked to the planned implementation of European Monetary Union later this decade. This would trigger sweeping rationalisation of the European bond and money markets which underpin many of Liffe's most successful products.

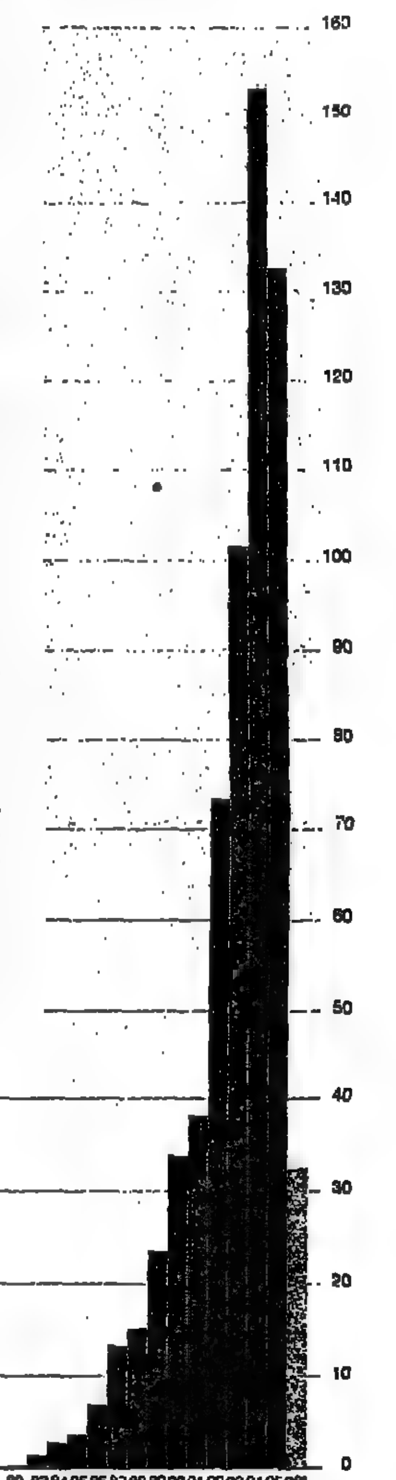
German bond and money market contracts, which could disappear after monetary union takes effect, account for about 50 per cent of the market's turnover. Yet Liffe will face tough competition from the Paris-based Matif and the Deutsche Terminbörse in Frankfurt for any contracts denominated in the Euro, the proposed new EU currency. Such contracts might replace existing EU government bond and money market futures and options.

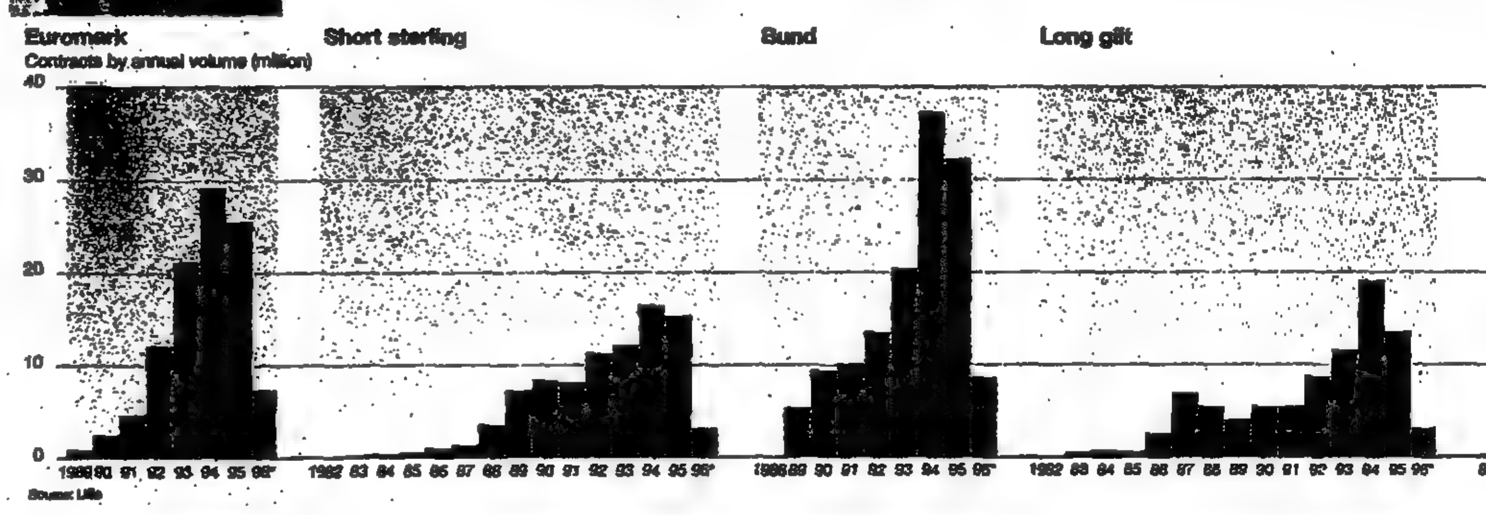
However, Liffe has already made some progress in addressing these issues. This month it announced changes to two of its most popular products to enable traders to settle contracts in Euros.

Nevertheless, most accept that it is still not clear whether Emu will be good or bad news for the market. What seems certain is that the sense of timing, which has been such a critical ingredient in Liffe's success to date, will once again be put to the test.

Liffe futures and options

Total annual contracts by volume





Source: Liffe

* to Feb 20

· OBSERVER ·

Fruit for thought

■ Zesty Thai-cooking relies on the generous use of lemons, so when prices of the essential fruit shot up earlier this month to Bt10 (33 cents) from the usual Bt3, it injected a sour taste into the mouth of a government which is constantly banging on about the importance of controlling inflation.

But ever-resourceful Thai prime minister Banharn Silpa-archa – no slavish acolyte of conventional economic theory, he – reckons he has a recipe for success. Why not mint more Bt1 coins?

He believes that lemon prices rose because there are not enough Bt1 coins for market vendors to make change and more coins would allow prices other than multiples of 10 to be easily handled.

If prices of the fruit escalate to Bt17 as a result, of course, the idea's author could still be left looking a bit of a lemon.

Beefeater

■ Timing, as they say, is everything. Pity then Bill Cash, the voluble cheer-leader-chief of the Eurosceptics, for choosing yesterday to launch his alternative "blue paper" on bashing the Brussels institutions.

Not only did the BSE revelations divert attention from the Euro-issue ahead of today's debate on the intergovernmental conference, but the MP for Stafford's accompanying press release contained the unfortunate phrase: "While Bill Cash considers the tone of the White Paper is right, he believes it is vitiated by a lack of beef and an underlying philosophy of appeasement." At least on this occasion, Cash did not take the opportunity of blaming the Germans.

Right concept

■ Why did Dickson Poon, the Hong Kong-based boss of Dickson Concepts, pick James Capel as joint broker for the planned flotation of Harvey Nichols, his Knightsbridge store? Surely it could have nothing to do with the fact that he met his current wife, Pearl Yu, when she was working as an analyst at James Capel?

Pearl had been following the fortunes of Dickson Poon for James Capel and liked what she saw. She no longer works for Capel so there should be no problems about conflicts of interest in the forthcoming flotation.

Skirted issue

■ So much for President Jacques Chirac's promises to reduce the extravagance of the French state, not to mention all those resolves to declare war on bureaucracy by paring back the number of political staff surrounding ministers.

The corridors of power would seem to be filling up again nicely. Elizabeth Hubert, for instance, the colourful former minister of health who was reshuffled last autumn out of a job by prime minister Alain Juppé, has managed to re-enter the government through a side door in the Matignon. She is set to become an adviser to her former boss on social questions.

Nor is she alone. Fresh-faced François Baroin, the former government spokesman, has also popped up in an advisory capacity in the prime minister's office.

Back at ministerial level they are not. But at least they are doing their bit to help keep down the embarrassingly high levels of national unemployment.

Beyond the pale

■ The Philippines has long been notorious for corruption, though things might be changing. Certainly President Fidel Ramos is proving mightily sensitive to hints of graft in his administration.

The secretary of state for health, Hilarion Ramiro, has been given the push, pending an investigation into allegations of inflated bills for drugs and equipment. As a former regional health officer under the Marcos regime, Ramiro was perhaps never a tactful choice.

Among the piquant details is the allegation that Ramiro had demanded a car from a foreign health company, in exchange for signing a medical supply contract. "I was only joking," Ramiro told reporters.

His boss is not amused.

Eye off the ball

■ Spent too long in the scrum? A couple of England rugby fans got their wires crossed, and braved the Irish sea last weekend to cheer on their team in Dublin. Only problem was, the game was played at Twickenham.

Roy Holt, vice-chairman of the Witney Rugby club admitted that he and six other club members had made a mess. "We're a bit red-faced, it looks as if we are a bunch of idiots." However, the intrepid travellers made the best of a bad fist and watched the game on TV and had a good weekend in Ireland instead.

The good gentleman had apparently booked their tickets last season in the expectation that they would be watching Ireland play Scotland – a game played on January 20.

Horrid task

■ The best-known store in London, Harrods, has just advertised for some "pro-active" fire fighters to join its staff. Not for clearing old stock, surely?

The Financial Times

100 years ago

The Cuban revolt

According to a Havana cable, which reaches London by way of New York, the "loss resulting" from the first year of the Cuban revolt is estimated at 134 million dollars, or, in round figures, 27 million sterling. It would be interesting to know what the correspondent means. If he refers to the loss to Cuban trade, then Cuban trade must have grown without anybody's knowing about it, seeing that the total exports from the island are about 90 million dollars per annum. If, on the other hand, he means the expenditure of Spain on the civil war, then it is from Madrid that such an estimate should come. We ourselves should think that a considerable portion of the 134 million dollars has been squandered on the despatch of unreliable cables from the seat of war.

[The Spanish colony of Cuba gained its independence in 1899. The Second War of Independence took place in 1895].

50 years ago

Dutch pacts

It is learned that the Netherlands and Portuguese Governments have concluded a monetary agreement fixing the rate of exchange at 10.69 guilders to 100 escudos. A commercial treaty was signed at the same time. Both pacts are to remain in force for one year.

FINANCIAL TIMES
Thursday March 21 1996

Government officials warn VAT exemptions will lead to deficit

Philippines budget under pressure

By Edward Luce in Manila

The Philippine budget is likely to plunge into deficit this year after posting two consecutive surpluses, because of a heavy dilution of new consumption taxes by congress, Department of Finance officials said yesterday.

Amendments passed in the House of Representatives since January providing more than 12 exemptions to the value added tax on goods and the enhanced VAT on services, which was introduced in January, would reduce government revenues by 22bn pesos ($840m), officials said. The government posted a surplus of 16bn pesos in 1995.

"This completely overturns our calculations of a zero or positive budget surplus in 1996 and makes a mockery of introducing the EVAT in the first place," said Ms Nene Guevara, undersecretary of finance.

"We are now looking at a consolidated public deficit of around 1.5 per cent of GNP."

Ms Guevara said congress had misconstrued the exemptions as being "pro-poor" when in fact they were specifically targeted at middle class consumers. For example, the exemption of the 10 per cent tax on processed food, which would cost the government 17bn pesos alone, would almost wholly benefit middle income groups, as unprocessed food, which makes up the bulk of the poor's food spending, had already been excluded from VAT.

"You can hardly describe exempting real estate transactions of 1m pesos or less as being a measure which would benefit the poor or for that matter exempting rent-a-car companies and tourist buses," said Ms Guevara. "What will harm the poor is the impact this will have on the wider economy, including higher interest rates, higher inflation and the lower growth resulting from deficit financing."

With prime interest rates above 13 per cent and inflation at 11.8 per cent, government officials have accused congress of acting irresponsibly for short-term political gain.

Opposition senators, who could overturn the amendments before they are signed into law in June, doubt they have the numbers to reverse the process.

"We will do our best in the Senate to fight the lower house's amendments, but we are not optimistic," said Senator Edgardo Angara, minority leader in the 24-member senate. "It is difficult to fight this when it is the government's supporters who are mangling the administration's fiscal programme themselves."

Government officials said that the Philippine three-year economic turnround, which has won international acclaim and boosted direct foreign investment, could fail to pick up further momentum unless the country could guarantee long-term fiscal responsibility.

Failure to enact a comprehensive tax reform bill this year or to reverse the VAT amendments would confound the government's efforts to spend more on infrastructure, boost domestic savings and reduce the cost of borrowing, officials said.

US regulators call time on brewer's Internet share trade

By Lisa Bransten in New York

US regulators took the fizz out of Spring Street Brewing's launch of Internet share trading yesterday by stopping the two-day-old experiment in cyber finance.

Spring Street, a young Manhattan-based brewing company, voluntarily suspended trading in its shares yesterday after the Securities and Exchange Commission (SEC) requested that trading be halted pending further review.

The company launched its electronic trading system two weeks after completing the first ever public offering over the Internet, in which it raised $1.6m from 3,500 investors.

That offering was done under a special SEC regulation that allows small companies to raise less than $5m without an underwriter.

The SEC would not comment on the action, but Mr Andrew Klein, Spring Street's chief executive, said the regulators he spoke to appeared concerned that the company was acting as its own transfer agent.

Under the Wit-Trade system, named after Spring Street's Wit ale, potential buyers and sellers post offers on a bulletin board at the company's site on the World Wide Web.

They can then e-mail, telephone or write to a counterparty and agree a price.

Once buyer and seller agree a price the purchaser must send a cheque to Spring Street, which transfers the money to the seller and the shares to the buyer.

One advantage to the system is that no fees are paid to outside broker-dealers.

Mr Tim Flanigan, a lawyer with Mayer, Brown & Platt in Washington, said companies could not, in general, act as clearing houses for their own shares. "I suspect that is where the SEC is nervous," he said.

In its one full day of trading, Spring Street got four commitments for trades. The tiny company is only three years old, and in its last quarter made a loss of $106,111 on $239,691 in revenues.

While the national exchanges such as the New York Stock Exchange and the Nasdaq stock market are hardly threatened by Spring Street's minute volumes, there are concerns about companies that circumvent traditional markets.

Mr Marc Beauchamp, a Nasdaq spokesman, said he was concerned about the potential for fraud in such an unregulated marketplace. "Investors could end up buying non-existent shares from non-existent people and not get anything in return," he said.

Mr Klein is confident Spring Street will eventually be able to resume trading its shares through the Internet, possibly by hiring an outside broker-dealer to handle the trades. "It's not insurmountable," he said. "It's just a pain in the neck."

UK evidence links BSE to humans

Continued from Page 1

out accompanying measures to control beef production in the UK. "EU legislation is designed to protect all European consumers. Any new measures would also have to protect British consumers," an official said.

Three German states have banned imports of UK beef because of fears over BSE. However, last year most of Britain's 277,000 tonnes of beef exports to the EU went to France, Italy and the Netherlands. Germany imported only about 200 tonnes.

The Brussels official pointed out that the Commission had "erred on the side of caution" in drawing up the EU's present regime of controls on beef production. "Even though there has never been any evidence to suggest humans could contract BSE, EU policies were based on the principle that such a link could not be excluded," the official said.

Brussels suspects ABB is one leader of heating 'cartel'

Continued from Page 1

ny's being awarded a district heating contract in Leipzig-Lippendorf, in eastern Germany, in March 1995.

The letter, written by the Commission to suppliers and customers of Powerpipe asking for information, also states: "should it be proved that this is the work of a collective boycott, it could represent a serious violation of Article 85 of the EC-Agreement", the European Union law governing investigation of presumed violations of competition rules. If the suspected companies are found guilty, they may have to pay heavy fines. The six companies suspected to be members are ABB, three Danish companies – Logstor, Tarco and Starpipe, and two German-based companies – Panisovit and Isoplus.

The Commission's letter to Powerpipe suppliers and customers asks them to "forward copies of all documents relating to possible contacts between your company and manufacturers" of insulation pipes.

The Commission has also been preparing letters to be sent to the suspected cartel members questioning them on the evidence gathered. Details of the workings of the suspected cartel have emerged. Members apparently sought to allocate among themselves all contracts worth more than DM100,000 ($68,000) in a number of European markets. But some members have complained that others have broken this understanding and accepted contracts unilaterally.

Evidence with the commission has also established that after the award to Powerpipe of an earlier contract in eastern Germany, this time in Neu Brandenburg, several members of the suspected cartel mounted a concerted effort to persuade Powerpipe to give up the contract during which it was explicitly offered membership of the circle. It includes references by senior executives from suspected cartel members to how the "circle" operates under the cover of the European District Heating Pipe Manufacturers Association, an industry trade body.

The executives acknowledge the existence of frequent contacts between themselves in the course of attempts to keep the cartel in operation and state that they are orchestrated by ABB officers.

These contacts led to co-ordinated moves to offer Powerpipe assured market share in Sweden and several other European markets if it stopped attempting to take business in markets in which the cartel was operating.

It was made clear that the consequences of not co-operating would be concerted action by cartel members to freeze Powerpipe out of business, in part through aggressive pricing by cartel members on contracts bid for by the Swedish company.

ABB said yesterday: "We have no comment as long as the investigation is going on."

Isoplus said: "We are not members of a cartel". Panisovit and Tarco refused to comment. Logstor said: "We have and will continue to help the commission in any investigation in any way we can. Further than that, we have no comment." Mr Klaus Skjodt, managing director of Starpipe, confirmed he had been contacted by Commission investigators, but he refused any further comment.

THE LEX COLUMN

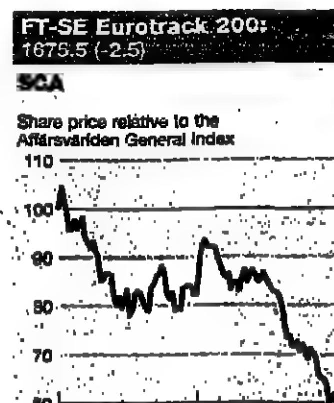
Paper tigers

Yesterday's four-fold profits increase from Sweden's SCA puts the seal on a vintage year for Europe's paper producers. The future looks much less promising. The price of pulp, the basic raw material, has halved to $500 per tonne in less than six months, dragging down prices for coated paper, fine paper and containerboard. Spot prices have fallen as low as $450 a tonne in some instances. Moreover, despite several months of destocking, pulp stocks are still at near-record levels. As a result, demand has remained subdued as customers defer orders to secure a better price. This will lead to a sharp reduction in profits this year – some brokers are estimating an aggregate fall of nearly 50 per cent for Europe's top 15 paper companies – and in all likelihood a further earnings decline in 1997.

At least the industry is showing more discipline than during previous downturns. Northern European forestry groups, like Stora and MoDo, have all cut production. And most producers are putting plans for new capacity on hold and channelling money into higher dividends. SCA raised its payout by 27 per cent yesterday. Consolidation, including the merger of Kymmene and Repola in Finland, should also help create a more orderly market.

Nevertheless, valuations are looking stretched. Buying of cyclical stocks, primarily by optimistic US investors, has driven many paper company share prices up by over 30 per cent since January. SCA is now trading on 10 times earnings. With a turn in the pulp price unlikely before 1997, that looks too high.

FT-SE Eurotrack 200:
1675.5 (-2.5)



Digital video discs

The digital video disc was supposed to do for the depressed consumer electronics industry what the compact disc did in the 1980s, but its gestation is proving almost endless. There is probably an element of sour grapes in Philips' veiled threats to delay its launch of DVD players. Philips lost the argument with Toshiba and Matsushita over a technological standard for the product. Nonetheless, Philips is probably right to claim there will be no mass consumer market for the video disc if there are incompatible standards in different parts of the world. And DVD players have little chance until they have a recording function.

The film studios are trying to have their cake and eat it. Video sales are booming, so Hollywood does not want to sacrifice a highly profitable business until they see a proven alternative. Meanwhile, it is easier for them to protect copyright if DVD machines cannot record from television or other discs. Nonetheless, the prerequisite for success is the ability to supply a product range and quality which will encourage consumers to replace their video recorders.

There are some winners from the delay, like the substantial video duplication operations of Carlton and Rank. Ironically, it is the Hollywood studios who could be the biggest losers. After all, it was the music companies that really cashed in on compact discs; meanwhile Philips' consumer electronics division, which fathered the CD, is virtually worthless.

BT

BT's profits look set to fall following yesterday's draconian statement from Oftel, the industry regulator. Oftel estimates its price cap proposal will slash operating cashflow in BT's core regulated business by £1.2bn over the next five years. BT's other businesses – such as multimedia, mobile communications and international expansion – are most unlikely to make up the deficit. Indeed, many will absorb increasing amounts of cash until early next century.

BT may be able to challenge elements of Oftel's proposal. The regulator's assumption that unit costs can be cut by 4½ per cent a year looks particularly vulnerable. During a period when BT shrank its workforce by 100,000, unit costs fell only 3½ per cent a year; with roughly 140,000 employees left, similar progress will be hard to achieve. Similarly, the principle of giving Oftel powers to police anti-competitive behaviour is uncontentious, but the regulator's precise plan contains too few checks and balances. Unless Oftel gives ground on these points, BT will have a strong case to take it to the Monopolies and Mergers Commission.

But even if BT wins these points, that will be cold comfort for shareholders. The main issue is profitability. Oftel has retreated from its extreme suggestion that BT's return on capital should be as low as 9 per cent. But the new figure of nearly 13 per cent will still cut annual profits by over £1bn. It could probably also be defended at the Monopolies Commission.

This is bad news not only for BT but also for rivals like Mercury Communications and the cable television groups. As BT cuts prices, they will have to follow suit. But the prospect of seeing its competitors in difficulty will be only the flimsiest silver lining in a dark cloud.

UK banks

Bank stocks, widely viewed as a proxy for bonds, dramatically underperformed the stock market during the recent sell-off. This may seem logical enough. The market rout was, after all, sparked by concern about inflation and higher interest rates, and it is received wisdom that inflation encourages irresponsible borrowing, and higher rates cause defaults, depressing banks' profits.

But in reality the link is more subtle. Given the low level of current interest rates, there would probably be at least some slack before higher rates became painful – arguably, not until the base rate climbed about two points to 8 per cent. And gradually rising rates might allow banks to increase margins – partly because they pay virtually no interest to some depositors. Furthermore, banks should be less vulnerable to bad debt than at the end of the 1980s, since they have reined in lending substantially, if not by as much as they like to pretend.

Likewise, while high inflation accompanied by unsustainable economic growth tends to fuel excessive borrowing, modest inflation leading to modest loan growth could be viewed as positive. The snag is that using up excess capital by lending would make share buy-backs – on which the market has set its heart – less likely. If the highs and lows of the current cycle do prove less extreme than last time, the correlation between bonds and banks, which is, after all, a relatively recent phenomenon, could well be broken.

Additional Lex comment on Beazer, Page 18

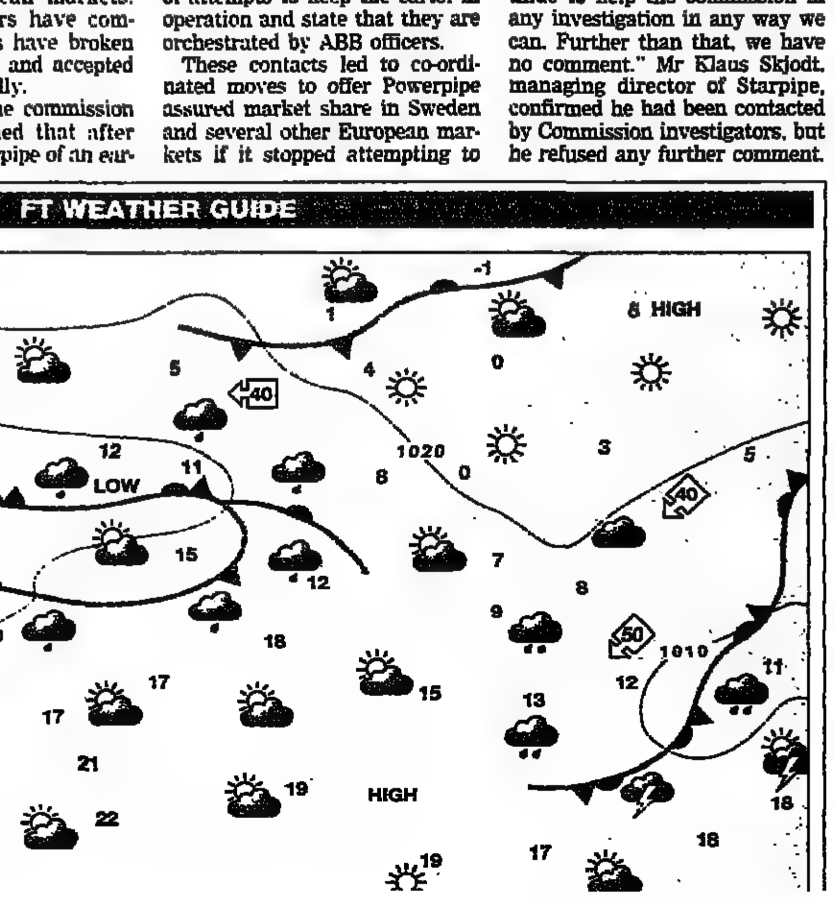
FT WEATHER GUIDE

Europe today

A frontal depression west of southern England will produce cloud and rain in southern Ireland, England, France, south-west Germany, the Alps, Belgium and the southern Netherlands. The Alps will have snow above 1,500 metres. High pressure over the western Mediterranean will cause dry and sunny conditions over Spain, Portugal and the Balearic Islands, Morocco, Tunisia and the Canary Islands. Temperatures will rise to about 20C. The eastern Mediterranean will remain wintry. Depressions over Turkey will cause cloud and rain or showers in Turkey, Cyprus and Israel. A high over Scandinavia and north-western Russia will give calm, dry but rather cold conditions.

Five-day forecast

The high over the western Mediterranean will join the Russian high in the next few days. Depressions will persist over the Atlantic and the eastern Mediterranean. Mild air will be driven north through south-western Europe. It will become springlike with increasing temperatures and more sun in Spain, Portugal France, the British Isles, the Benelux, Germany and the Alps. Depressions over Portugal, the British Isles and southern Scandinavia will



FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1996 Thursday March 21 1996

IN BRIEF

Rockwell rises on sale expectations

Shares in Rockwell, the US manufacturer and defence group, rose almost 5 per cent on renewed suggestions that it might sell its defence and aerospace operations. Rockwell refused to comment. Although the company has become less dependent on defence in recent years, 28 per cent of its $13bn sales last year were to the US Defence Department and the NASA space agency. Page 16

Agreement reached over Azucarera
Générale Sucrière of France is poised to advance in Spain's sugar sector as the co-owner of General Azucarera, the second biggest domestic sugar producer, through a Pta16bn ($128.9m) deal with Banco Central Hispano and Acor, Spain's third-ranked sugar company. Page 14

CCF records 12th earnings rise
Crédit Commercial de France, the banking group, has reported its 12th consecutive annual increase in net income. The bank recorded a 2.3 per cent increase in net income to FFr1.2bn ($237.8m) in 1995. Page 14

Lehman climbs to $104m in quarter
The surge in US mergers and acquisitions activity was evident when Lehman Brothers, the investment bank, said it was working on deals with a total value of $58bn at the end of February. Lehman was reporting its first-quarter results, which showed net income of $104m, an increase from $46m in the same period a year ago. Page 16

Sun Hung Kai optimistic after 5% rise
Sun Hung Kai, one of Hong Kong's largest property groups, has announced a modest increase in profits for the six months to the end of December, but struck an optimistic note about prospects for the Hong Kong market. Its net profits rose 5 per cent to HK$5.15bn (US$666m). Page 17

Westpac to buy back 95m shares
Westpac, one of the big four Australian banks, has announced plans to buy back and cancel 95m shares through stock market purchases. It is the first of the big Australian banks to announce such a scheme under "regular" circumstances. Page 17

H&C to end last colonial link
Harrisons & Crosfield, the conglomerate which began life as a 19th century tea trader, is considering severing links with its colonial past by floating the palm oil plantations business in Papua New Guinea. It is estimated that Harrisons could raise £30m ($46m) from a flotation of its 54 per cent stake. Page 16

Restructuring and US buy help Weir
Shares in Weir Group rose 23p to 258p after the pumps and engineering business announced a 50 per cent increase in profits for the year to December 29. The rise reflects the benefits of last year's reorganisation and maiden full-year contributions from EnviroTech, the US pumps company acquired for $210m 18 months ago. Page 18

Canada leads silver production 'revival'
A "mini-boom" in silver production is taking place, according to the CRU International metals consultancy. Last year Canada lead the way and "a surprise revival" is also occurring in the US. Page 19

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Kali & Salz	2121	+	6
Porsche	815	+	32
Rosenthal	108	+	7
Varta	285.5	+	4.5
Falls			
Bankges Berlin	344	–	7.5
Rheinmetall Pf	180	–	4
NEW YORK ($)			
Rises			
Fila	59¼	+	2⅜
Falls			
Digital Equip	56¼	–	10¼
Georgia-Pac	88¼	–	3⅝
Hewlett-Packard	95	–	5⅛
IBM	115½	–	5¼
Seagate Tech	54⅛	–	3⅝
LONDON (Pence)			
Rises			
MAID	228	+	30
On Demand Info	218	+	21
Richardsons W	88	+	6
Falls			
Babcock Intl	129	–	10
Datrontech	204	–	28
Telspec	593	–	117
TORONTO (C$)			
Rises			
Amer Eco	9¼	+	⅞
Biovail	39¼	+	2¼
Falls			
[illegible] Res B	13¼	–	1
Metrowerks	13¾	–	1¾
Softkey Sftwr	31	–	2
Softquad Intl	9	–	¾
PARIS (FFr)			
Rises			
Canal Plus	1126	+	56
Falls			
[illegible]	208.1	–	7
Credit Natl	381	–	7.6
Docks de Fr	841	–	19
Radiotechn	520	–	24
Seita	181.7	–	5.8
HONG KONG (HK$)			
Rises			
Dah Sing Fin	24.25	+	0.9
[illegible]	7.9	+	0.3
Great Eagle	24.2	+	1.25
Hon Kwok HK	2.675	+	0.2
Falls			
HKR Intl	8	–	0.35
Melco Intl	3	–	0.275
BANGKOK (Baht)			
Rises			
Matichon	158	+	12
Post Publ	175	+	15
Thai Telephone	95.5	+	5.5
Thanulux	88	+	6
Tisco	960	+	68
Falls			
Thaifoods Ent	32.5	–	2.25

New York and Toronto prices at 12:30. Tokyo closed.

Profits surge fivefold at SCA

Swedish forestry group rounds off a record year for the sector on the back of strong pulp prices

By Christopher Brown-Humes in Stockholm

SCA, Europe's leading pulp and paper group, yesterday rounded off a record year for Swedish forestry by reporting a fivefold surge in 1995 profits from SKr1.06bn to SKr5.73bn ($855m).

It means combined profits for Sweden's four biggest forestry groups – SCA, Stora, MoDo and AssiDomän – rose nearly three times from SKr8.17bn to SKr23.3bn, mainly because of much stronger prices for pulp and most paper grades.

But, echoing its competitors, SCA warned of tougher conditions in 1996, saying slower European economic growth had lifted inventories and undermined prices.

Pulp prices have fallen sharply since peaking at $1,000 per tonne for long-fibre grades last October, and prices for containerboard, coated magazine paper (LWC) and fine paper have been hit.

Mr Sverker Martin-Löf, SCA chief executive, said pulp prices had almost halved in less than six months to between $500 and $550 per tonne.

"High inventories ought to lead to further production cuts fairly quickly," he said.

"We see no reason to paint an overly black picture, but it is going to take a few more months before we see where the business cycle is heading," he added.

Analysts say SCA's profits will slump below SKr5bn in 1996, which would be more resilient than other Nordic forestry groups. SCA's hygiene and packaging operations, less cyclical than its graphic paper businesses, should cushion it from the worst of the market downturn. The group said its 1995 results had been lifted by its purchase, for more than $1bn, of a 75 per cent stake in PWA, Germany's leading pulp and paper group, at the start of last year.

It said PWA had done better than expected, contributing SKr1.08bn to profits, or SKr3 a share, against an initial estimate of SKr1.

Group operating profits jumped from SKr1.81bn to SKr7.35bn after sales surged from SKr33.7bn to SKr65.3bn.

Graphic papers fared best, with profits leaping from SKr495m to SKr2.29bn, while packaging profits jumped from SKr910m to SKr2.37bn.

The restructured hygiene division saw profits rise from SKr315m to SKr1.41bn, but this was only because of PWA. SCA's core Mölnlycke unit was hit towards the year end by rising raw material costs and lower nappy prices.

SCA said pulp and paper markets started falling in the second half of 1995, but fourth-quarter profits of SKr1.42bn were still much stronger than SKr385m in 1994.

The dividend is lifted from SKr3.75 per share to SKr4.75.

Lex, Page 12

Hopewell tax boost fails to halt slide

By Louise Lucas in Hong Kong

Hopewell Holdings, the property company owned by Mr Gordon Wu, yesterday reported a sharp slump in interim net profits to HK$466.4m (US$60m) from HK$1.26bn in 1994, in spite of an unexpected earnings boost of HK$195.7m from a tax write-back.

In line with what analysts called its "disappointing" performance, the dividend was slashed to 3 cents from 10 cents. The figures for the six months to December 31 suggest Hopewell is on course for a steep deceleration in earnings at the year end.

Stripping out an exceptional item of HK$964m in 1994, and this interim's tax write-back, profits were down 7.9 per cent, from HK$292.17m to HK$270.65m.

Hopewell Holdings' biggest contribution to profits came from interest income on shareholders' loans. This accounted for around HK$200m of net profits, compared with the second biggest earner, HK$150m from rental income.

There was little good news for investors on the progress of Mr Wu's endeavours to cut the company's HK$9bn corporate debt. In January Mr Wu revealed plans to spin off Hopewell's roads and transport projects and said he had received commitments totalling HK$5bn out of a projected initial capital raising of HK$9bn. Yesterday directors were less forthcoming, citing fear of reprisal from the stock exchange for allowing information to trickle out. Mr Robert Nien, director, said discussions with investors were under way: "What remains is negotiation on terms and pricing."

The centrepiece of the latest spin-off, which is to be called Consolidated Real Estate and Transport Asia (Creata), is the south China superhighway and related roads and property. According to Mr Nien, 38,000 vehicles a day were using the road at the start of last year; by December, the number had risen to 50,000. Just before the Chinese new year, almost 70,000 vehicles a day were recorded, he said.

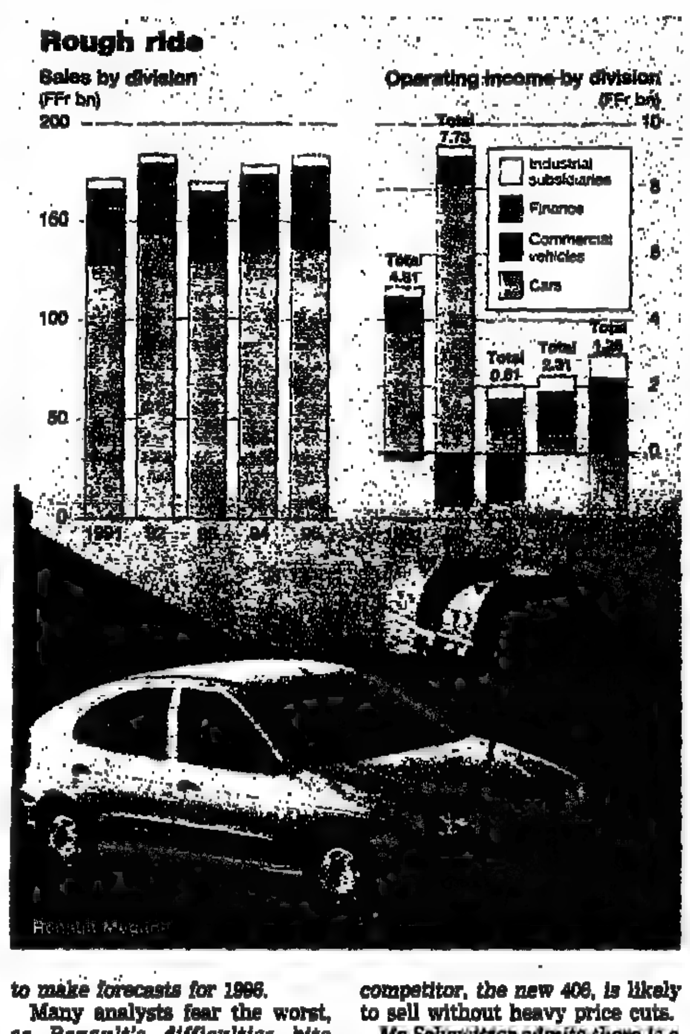
The group is also in talks with the Guangdong provincial government to raise the toll charge.

Work is still suspended on the Guangzhou ringroad, as Hopewell executives grapple with provincial government officials in an effort to amend the joint venture contract.

Cepa results, Page 17

Renault head surprised by severity of downturn

Moving faster to stay with the pack



Ever popular and urbane, Mr Louis Schweitzer, chairman of France's state-controlled Renault vehicles group, let his mask slip a little yesterday after aggressive questioning from both sides of the Channel on the group's poor 1995 results.

In analysts' meetings in Paris and London, Mr Schweitzer repeated his view that Renault's 41 per cent drop in net profits to FFr2.14bn ($425m), announced on Tuesday, stemmed largely from factors beyond its control.

However, he could not hide the fact that the figures have set back hopes that the French government – which still owns 53 per cent of Renault – might dispose of more shares in the near future.

"It is not often fund managers tell you they won't buy a share at virtually any price," says one analyst. "But that's almost the case at Renault." Even an upturn in the market, good first-half results and signs that the crucial new Mégane mid-sized range is selling well may not be enough to convince hardened investors.

Renault blamed weak European demand, currency depreciations and the Mégane's introduction for the swing to a FFr1.7bn operating loss at its core car division after profits of FFr289m in 1994. West European car sales rose just 0.6 per cent last year, while demand in France, Renault's home market, was hit by December's strikes.

The company, like other north European carmakers, also suffered a competitive disadvantage compared with counterparts, such as Fiat, based in countries with weaker currencies. And Renault was hit by the replacement of the well-regarded R19, which competes in Europe's biggest car segment, with the Mégane.

"But all that is not enough to explain last year's results," says Ms Sabine Blümel, an analyst at IMI in London. Like many counterparts, she is disappointed Renault did not signal how its results were deteriorating last year. Most analysts were forecasting a loss of about half the size. Some were also dissatisfied that the company did not hint at earnings this year.

In an interview, Mr Schweitzer said Renault had been taken by surprise by the severity of the downturn last year – explaining why analysts may have felt ill-informed. The unpredictable market is why he says it is "not fair" to make forecasts for 1996.

Many analysts fear the worst, as Renault's difficulties bite much deeper than the extraneous circumstances it cited.

● Renault has enlivened its model range, raised quality and lowered production costs. However, "all it has done is to lift itself from below average to an average position", says one analyst.

In spite of efforts to cut costs with new models, Renault's operating margins are believed to be 3-4 per cent lower than Peugeot-Citroën, its most direct competitor and one of Europe's most productive carmakers.

"I think our production costs are rather well in line," counters Mr Schweitzer. He admits, however, matters are different for engines, where Renault's costs are "not fully satisfactory".

He admits Renault cannot stand still. This week, he promised a cut in the average production cost per car by FFr3,000 – or roughly 3 per cent – slashing costs by FFr4.5bn a year by the end of 1997. The company will take its cue from a cost reduction drive begun last year on the Laguna mid-sized hatchback.

● The improvement in Renault's models has not always been reflected in their pricing and profit margins, in spite of the fact that current models are unrecognisable from the bland and poorly-built cars of the 1980s. Although praised in the media, the Laguna is often sold at a discount, whereas Peugeot's direct competitor, the new 406, is likely to sell without heavy price cuts.

Mr Schweitzer admits there is a pricing problem, stemming from the fact that Renault's image remains weaker outside France. That affects pricing policy and makes its margins even more reliant on domestic sales.

● Renault faces a fundamental structural problem as a single brand company, with a relatively small range of models, compared with multi-brand rivals. With only one brand, an important model change leaves the group relatively vulnerable.

All carmakers face risks with big model changes. Old stock has to be cleared, often at low prices, while launch costs can be staggering. But a manufacturer with more than one brand can often time model changes to cause the least disruption.

Mr Schweitzer denies single branding is a "major handicap" and says Renault has no plans to change. He admits, however, the company has a problem with executive cars, where margins are usually biggest.

The combination of these factors explains why analysts are bearish about Renault this year. Many expect the cars side to stay in loss. Nor do they think Renault's resurgent commercial vehicles side, which increased its operating profits fivefold last year to FFr978m, is big or strong enough to fill the gap in the long term.

Haig Simonian

Digital shares drop as fears grow over US PC sales

By Tony Jackson in New York

Shares in US personal computer manufacturers were battered yesterday as Digital Equipment warned of a slowdown in North American PC sales in the current quarter, which would affect its earnings overall. In early trading, Digital shares fell $10⅞ to $56¼, a drop of 16 per cent.

Digital, which said in January that it was quitting the consumer PC market and focusing on PCs for commercial use, said it had started to see a slowdown in the commercial market in February. At the beginning of March it cut the prices on its machines by up to 26 per cent.

This formed part of a general price war among suppliers of commercial PCs, including Compaq, IBM and Dell.

However, yesterday's announcement surprised the market, in particular the company's warning that difficulties in PCs – which account for only 15 per cent to 18 per cent of Digital's revenues – would cause the group's earnings to fall short of forecasts in this quarter.

Digital said yesterday it had encountered significantly reduced demand and increased price pressure, particularly in North America.

It added that the problem had been compounded by overstocking in the retail chain of its own and competitors' products.

The company said that having introduced price cuts and promotions in response to the slowdown, it had realised in the past few days that the severity of the situation should be disclosed to its shareholders. It said that earnings for the quarter were likely to fall short of estimates, which range from $0.67 a share to $1.19.

However, it said that the rest of the business continued to perform well. On that basis, it expected a significant improvement on last year's figure of $0.44 a share.

By lunchtime, shares in Compaq had fallen 6 per cent, down $2¼ to $37⅝. IBM had fallen 6 per cent, down $5¾ at $116, as had Hewlett-Packard, down $5⅜, at $95⅜. Dell Computer had dropped 5 per cent, down $1¾ at $31⅞.

The drop in PC makers' shares affected technology stocks generally.

The Nasdaq index fell 10.92 to 1101.58, while the Pacific Stock Exchange Technology Index fell 4.59 to 206.23, a drop of 2.2 per cent.

The setback is an embarrassment for Digital, which has been in profit for only five quarters after net losses totalling $1.7bn before special charges in the three years 1992-94.

Like IBM, the company had been hit by its reliance on mainframe computers, and went through a long restructuring period during which its survival was in doubt. However, the recovery in its fortunes in the past two years has pushed its market value back up to almost $10bn.

The Wall Street broker PaineWebber was reported to have lowered its forecast for the quarter from $1.03 to $0.70 a share, and to have warned that difficulties in the PC market could persist.

AT&T's Internet service to use Lotus Notes software

By Paul Taylor in London

AT&T, the US-based international telecommunications group, said yesterday it would integrate some new Lotus Notes software with its Internet service offerings.

The announcement comes less than a month after AT&T said that it would not use Lotus Network Notes service and was shifting its focus to open standard Internet software. At that stage AT&T said the Internet had made the Network Notes service, which connects Notes users over AT&T's telephone network, obsolete.

That decision was seen as a blow for IBM, which last year acquired Lotus Development, the software company that developed Notes, for $3.52bn. IBM's shares dropped sharply in the wake of AT&T's decision.

AT&T's rethink was widely seen yesterday as a bid to patch up relations between the two US companies. AT&T said it would use an upcoming version of Lotus Notes software as the foundation for many of its Internet products.

The new Notes server will be available from the autumn and will be used for electronic commerce, marketing and publishing as well as collaborative services.

AT&T also said it would accelerate the deployment of Lotus Notes software in its internal management systems, and would work with IBM and its Lotus unit to develop Notes-based systems for AT&T and other network companies.

AT&T's service, launched in August, was designed to enable companies to use Lotus Notes to form "electronic communities" which take in their customers, suppliers and employees who could then exchange electronic mail and work collaboratively over AT&T's telephone network.

However, the rising popularity of the Internet, has raised questions about the future of Notes which is based on proprietary software. IBM and its Lotus unit have been scrambling to adapt the Notes product to the new Internet environment.

AT&T's change of mind appears to indicate that it believes IBM will succeed in adapting Notes to the Internet.

In early trading yesterday, IBM's shares fell $5¾ to $116.

NEWS DIGEST

Ina enjoys 15% rise in life income

Ina, the Italian insurer, yesterday announced a 15.1 per cent increase in parent company premium income – which comes only from the life assurance activities - to L2,971bn ($1.9bn) for 1995. It said pre-tax profit for 1995 would be about 50 per cent higher than in 1994, when the parent company reported a profit of L487.6bn before tax.

The company, whose shares are quoted in Milan and New York, said the percentage increase in full-year net profit would be slightly lower because of a higher tax charge. Consolidated group results will be announced in early May. Ina's investments increased 8.7 per cent to L33,000bn, and income from investments rose 12.7 per cent to L2,300bn at parent company level. Ina said the increase in investment income was mainly attributable to more favourable market conditions last year, combined with recent legislation which has allowed insurers to diversify investments and enter new markets.

The company was partially privatised in 1994. Last year the Treasury, which once owned 100 per cent of Ina, further reduced its stake to 34 per cent by selling a core holding to a group of investors headed by Italian banks. The Treasury has been unable to press ahead with the sale of its outstanding shares because of depressed market conditions and the uncertain political outlook. *Andrew Hill, Milan*

One-off gain distorts NCC result

NCC, the Swedish construction and real estate group, suffered a 76 per cent decline in pre-tax profits to SKr230m ($34.5m) in 1995, mainly because the 1994 profit included a one-time gain of SKr1.18bn. The company forecast that pre-tax profit would improve in 1996. Revenues last year slipped to SKr16.6bn from SKr16.5bn.

If 1994's one-time gains, profits from associated companies and changed valuation of real estate are excluded, pre-tax profit more than quadrupled to SKr424m in 1995 from SKr104m a year earlier. Increased costs also hit earnings, with total expenditure rising to SKr15.5bn last year from SKr15.3bn a year before.

Profit on construction operations rose 23 per cent to SKr588m from SKr479m, with orders increasing 12 per cent in 1995 to SKr15.4bn. Losses on real estate operations narrowed to SKr64m from SKr663m. The Swedish construction market remained at record low levels in 1995, but NCC forecast that housing construction would improve in 1996 and 1997. It added that industrial construction would continue to increase, but at a lower rate than in 1995. *Reuter, Stockholm*

Greek oil group down 24%

Greece's Public Petroleum Corporation (DEP), the state-owned oil and gas group due to be floated on the Athens stock exchange later this year, yesterday reported a 24 per cent decline in consolidated 1995 pre-tax profits, to Dr23.2bn ($96.2m), on sales up 12.2 per cent to Dr568bn.

Mr Christos Verelis, group chairman, blamed the fall on reduced margins last year on oil refining and the repayment of Dr80bn in government subsidies under the terms of DEP's partial privatisation. The government plans to float 10 per cent of the group in the last quarter of 1996.

The group plans investments of Dr144bn in upgrading its two refineries, extending two petrol station networks in Greece and expanding commercial activity elsewhere in the Balkans. Mr Verelis said DEP's goal was to consolidate its 60 per cent share of Greece's oil products market and build a 20 per cent share of the bunkering and retail market.

The group's natural gas subsidiary, Depa, will start receiving Russian natural gas in July through a pipeline from Bulgaria. Depa has contracts to supply natural gas to Greece's electricity utility and 17 industrial companies, and will participate with foreign partners in three urban gas distribution companies being set up to supply domestic customers.

Through its oil exploration subsidiary, DEP-EKY, the group will have a 35 per cent stake in a small offshore oilfield being developed by North Aegean Petroleum Company, a Canadian-led group, close to an existing field off Thassos island. DEP-EKY will also participate in a new round of oil exploration in western Greece, where six onshore and offshore concessions are being offered. *Kerin Hope, Athens*

Mobile woes hit GN Store Nord

GN Store Nord, the Danish cable-laying and telecoms group, expects much better 1996 operating profits after posting a disappointing 1995 result, affected by mobile telephone losses. It attributed the fall in operating profit, to DKr108m ($18.9m) last year from 1994's DKr171m, to losses at Sonofon, the mobile telephone company in which it has a 36 per cent share.

Sonofon was hard hit by a price war with Tele Danmark, the Danish telecommunications group, last year. "Sonofon gained a much greater number of subscribers than expected – tripling during 1995 to over 270,000 – and this will bring in much bigger operational profits in 1996," GN Store Nord said. It said the liberalisation of the Danish telecoms sector from July 1 would offer Sonofon new possibilities.

Sonofon, though it overtook rival Tele Danmark in mobile phone subscriptions, cost GN Store Nord an estimated DKr127m in losses in 1995, it added. GN Store Nord's overall turnover rose 25 per cent, with financial items boosting profits by DKr76.4m, compared with the previous year's DKr6.2m. Net profit after minorities fell to DKr127.5m from DKr150.8m in 1994. *Reuter, Copenhagen*

Belgacom consortium grows

Kredietbank and Credit Communal de Belgique, the Belgian banks, and Sofina, the Belgian holding company, have joined the consortium holding 49.9 per cent in Belgacom, the Belgian phone company. The three together have 5 per cent of the 49.9 per cent stake. Ameritech, the US regional phone company, holds 35 per cent; Tele Danmark has 33 per cent; and Singapore Telecom, 27 per cent. The deal was finalised yesterday. *Reuter, Brussels*

Safilo result reflects strength in Italian eyewear

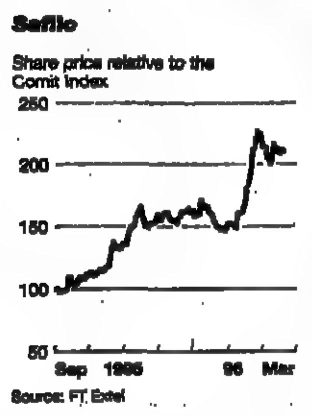
By Andrew Hill in Milan

Safilo, the spectacles and sunglasses maker and one of Milan's best performing stocks last year, yesterday underlined Italy's international strength in the eyewear sector with a near-doubling of net profit in 1995. It also forecast a 46 per cent increase in operating profit this year.

The group is aiming to expand further in 1996, helped by the purchase this month of 83 per cent of Smith Sport Optics, a US manufacturer of sports sunglasses and goggles.

Safilo is from a dynamic group of medium-sized eyewear manufacturers, mostly based in the Veneto in north-east Italy, which includes Luxottica, Italy's largest manufacturer, and De Rigo, both of which are quoted in New York.

Net profit at Safilo increased from L13.4bn to L24.7bn ($15.9m) in 1995. Operating profit surged from L22.3bn to L45.3bn, on turnover of L416bn, up from L326bn.



Last month, Luxottica announced a 29.4 per cent increase in net income for 1995, to L162bn. De Rigo announced a 42 per cent rise in turnover for 1995, to L302bn, and is due to report its profit for the year tomorrow.

All three are expanding their share of the US market. Luxottica last year carried out an ambitious takeover of the LensCrafters chain of spectacle stores, while De Rigo has set up a joint venture to distribute its Sting brand and a new collection produced with Fila, the Italian sportswear group.

Mr Vittorio Tabacchi, Safilo chairman, said yesterday the purchase of Smith Sport, for about L30bn, would strengthen the group's position in the market for sports sunglasses. The target company has about half the US market for ski goggles and glasses. "We forecast in 1996 that 51 per cent of our turnover will be in the US, thanks to the acquisition of Smith," he said.

Mr Tabacchi said Safilo was heading for an operating profit of L66bn in 1996, on sales of L555bn.

The Smith acquisition pushed up net debt at Safilo from L61bn at the end of the year to about L115bn. However, it says it expects to hold debt to less than L120bn at the end of the year, against net equity of L150bn. Safilo has recommended a dividend of L370 for each ordinary share, against L300 in 1994, and L400 per savings share, compared with L330.

Safilo, like Luxottica, has built a strong position in designer frames, manufacturing for well-known marques such as Gucci, Diesel, Burberrys and Polo Ralph Lauren.

CCF records 12th straight earnings rise

By Andrew Jack in Paris

Crédit Commercial de France, the banking group, yesterday reported its 12th consecutive annual increase in net income. The bank recorded a 2.3 per cent increase in net income to FFr1.2bn ($237.8m) in 1995 after a sharp drop in provisions against bad loans.

Mr Charles de Croisset, chairman, said the results were "fundamentally satisfying in an environment which is frankly hostile". But he stressed that the group in the past eight years had achieved an average return on capital of 2.4 per cent above the return on government bonds.

He said the CCF board had predicted at the end of 1994 that the French economy was heading for slower growth and so had launched a continuing programme to cut costs.

Banking revenues rose 0.3 per cent to FFr9.1bn, but the bank's general operating costs and depreciation charges increased 2 per cent over the year to FFr6.5bn, dragging operating income down by 3.8 per cent to FFr2.5bn.

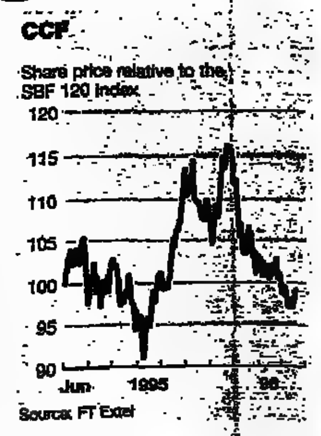
However, the bank had reduced new provisions 17.9 per cent to FFr723m during 1995 and the cover on doubtful loans had risen to 63 per cent – compared with 56 per cent last time – from a total loan-book to property professionals of FFr2.8bn.

The group stressed its commitment to holding regular meetings with smaller shareholders, and the creation of a consultative committee.

It said its policy was to increase dividends in the future to reflects investors' wishes, and it recommended a payment for the year of FFr5 a share, after FFr4.50 last time.

Mr de Croisset criticised increases in taxes last year, which removed a further FFr60m from the group's income.

He said Mr Pierre Suard, the former chairman of Alcatel Alsthom who was replaced after being placed under formal investigation by a French magistrate last year, had been elected in his personal capacity and would be continuing to sit on the bank's board because "there is a presumption of innocence until proven guilty under French law".



Seat cuts loss and looks to break even next year

By David White in Madrid

Seat, the Spanish subsidiary of Volkswagen which recently received a controversial injection of state aid, said yesterday it was on course to break even next year after reducing losses by 62 per cent to Pta11.29bn ($90.9m) in 1995. The Barcelona-based carmaker last made a profit in 1991.

"For the second year running, we are on track with our recovery plan," said Mr Utz Claassen, the company's German finance chief and executive vice-president. He said Seat had come "very close" to break-even in its operating results.

The improvement follows approval in October from the European Commission for a Pta46bn package of aid from the Spanish government and regional authorities in Catalonia to help the company restructure.

"The expectation for 1997 has not changed," Mr Claassen said. However, he warned that the company still had "a couple of years' very hard work ahead of it" to complete the turnround. The deficit compares with one of Pta29.47bn in 1994 and a towering Pta151.32bn loss the previous year.

Seat's popular Ibiza: carmaker on recovery course after state aid

Seat production increased 9.5 per cent last year to 343,444 units from 313,690, Mr Claassen said; parent company turnover, meanwhile, rose 13.7 per cent to Pta456.5bn from Pta401.4bn.

Commenting on a sparsely-worded company statement announcing the loss, Mr Claassen said: "A finance man must never be optimistic or pessimistic, but only realistic. But if I were not a finance man I would now start to be cautiously optimistic."

The improvement in results came in spite of a reduction in extraordinary earnings compared with 1994, when losses were partly offset by gains from the sale to Volkswagen of Seat's factory at Pamplona in northern Spain as well as its financing arm, Fiseat.

Last year's aid package was approved by Brussels on a "one time, last time" basis, and was conditional on a 29 per cent reduction in capacity from the 1993 level of about 800,000 cars a year. Actual production has remained well below that.

According to the company, most of the cutback measures required by the Commission had already been taken or were under way. Seat said its full results would be made public in May, after approval by the board next week.

Net income at Bic tumbles 22% to FFr763m for year

By Andrew Jack

Bic, the French manufacturer of disposable razors, ball-point pens and cigarette lighters, yesterday announced a reduction in 1995 net income of 22 per cent to FFr763m ($151m).

Net income was down because of an exceptional gain of FFr339m in 1994, mainly as a result of the sale of the Sofab subsidiary.

The group reported exceptional expenses of FFr38m, compared with FFr156m last time, against restructuring costs and its US buy-back operation.

Net sales fell 6 per cent to FFr5.99bn during the year, largely as a result of the decline in the value of the dollar, although the company stressed that the 1994 figures had included sales of FFr209m from its Sofab subsidiary, which had been sold during that year.

It said that sales at constant exchange rates and in comparable terms were up 4 per cent, with "modest sales gains" and strong profit improvements in the Americas in spite of economic problems in Central and South America.

Operating profit fell 7 per cent, from FFr1.14bn to FFr1.05bn, before taking into account the 1994 operating income of FFr61m from Sofab.

Net interest income more than doubled to FFr153m, against FFr73m.

The highly secretive company, which last year launched a buy-back of its shares quoted on the New York stock exchange, provided little additional financial information.

It said there would be a dividend of FFr10 a share.

The group also announced yesterday that Mr Claude Bich, director and vice-president of the company, had died on March 17 aged 57. It said all its employees were deeply saddened, and paid tribute to his accomplishments, particularly in the development of the technology of writing instruments and shavers.

The death comes only two years after that of Baron Marcel Bich, the founder of the group, in May 1994.

Agreement reached over ownership of Azucarera

By Tom Burns in Madrid

Générale Sucrière of France is poised to advance in Spain's sugar sector as the co-owner of General Azucarera, the second biggest domestic sugar producer, through a Pta16bn ($128.9m) deal with Banco Central Hispano (BCH) and Acor, Spain's third-ranked sugar company.

The proposed agreement would end a long-running battle between the French group and Acor for control of Azucarera.

It could also lead to a comprehensive reorganisation of the Spanish sugar sector through subsequent bids for Ebro, the main domestic producer, whose main shareholder is the Kuwait Investment Office (KIO). BCH, which has 49 of Azucarera, is said to be disposing of a 39 per cent stake to allow Acor to take a 24.9 per cent holding and Générale Sucrière to lift its 20 per cent stake to the same level. The disposal is designed to prevent either buyer's stake going above 25 per cent, where a takeover bid would be triggered.

BCH will place another 10 per cent of its equity among core Azucarera shareholders, which include the UK's Tate & Lyle. It will remain the sugar company's banker, owning up to 10 per cent of its shares.

Two years ago BCH agreed to sell virtually its entire stake in Azucarera to Générale Sucrière and to Tate & Lyle. However, the disposal was blocked by Spain's agriculture minister, Mr Luis Atinza Serna, who feared the domestic sugar quota could be downgraded if one of the country's leading producers were foreign-owned. A subsequent attempt by Acor, backed by the agriculture ministry, to buy into Azucarera was rejected by BCH.

The current deal appears to please all parties, including Azucarera. BCH, which is seeking to strengthen its balance sheet, gains useful liquidity from the sale; Spain's share of the European Union's sugar quota is safeguarded by Acor's investment; and the French bidder establishes the significant equity base in Azucarera that it has long sought.


Luiz Atinza Serna: feared downgrading of sugar quota

Analysts believe the settlement over Azucarera's shareholder structure anticipates the clarification of ownership at Ebro, where Grupo Torras, the KIO's investment arm in Spain, which is in receivership, owns 34 per cent of the equity.

Bids for Ebro, which are likely to involve Générale Sucrière and Tate & Lyle – followed by asset swap agreements with Azucarera or a merger of the two companies – are expected once BCH's disposal is completed.

Survey points to low morale at Deutsche Telekom

By Michael Lindemann in Bonn

Deutsche Telekom, Europe's largest telecommunications operator, yesterday launched an unprecedented publicity campaign aimed at persuading millions of Germans to buy shares in the company, but the move came amid signs that staff morale had fallen to new depths.

The company, which is state-held, is selling 500m shares through a global issue in *November*.

The state will retain an 80 per cent stake.

An internal survey, conducted last November by the Sample polling agency, and which has been obtained by the Financial Times, showed that 59 per cent of the company's top 2,000 executives were prepared to leave the company for another job.

Among 1,014 employees surveyed, 54 per cent said they would do the same, up from the 42 per cent who said they were prepared to leave during a similar survey in 1993.

The poor morale within the company, caused mainly by the fact that 43,000 jobs are to be shed by 2000, highlights the problems Mr Ron Sommer, chief executive, faces ahead of the stock exchange listing in November, and as he prepares the company for full-scale competition in the German telecoms market in 1998.

As part of its effort to attract potential shareholders, Mr Sommer said that Deutsche Telekom had set up a shareholders' information forum, believed to be the first of its kind, which would keep investors up-to-date on all aspects of the stock exchange listing. The listing, expected to raise about DM15bn ($10.2bn), will be one of the world's largest.

"The receipts from the stock exchange listing will increase our room for manoeuvre and the competition will see us soaring to new heights," Mr Sommer said yesterday in Bonn.

He said there would be other features to make the shares more attractive, but that these could only be announced later in the year. There has been speculation that these might include tax breaks for shareholders.

Mr Joachim Kröske, finance director, said the price of the shares would only be known after the book-building process had been completed, shortly before the November listing. Book-building sets a price for the shares on the basis of demand among potential shareholders.

However, Mr Kröske acknowledged that selling shares to German investors would not be easy, given their previous lack of enthusiasm for buying equities.

He said only 5 per cent of Germans held shares, compared with about 20 per cent in other leading industrialised countries.

The Dax index of Germany's top 30 shares had risen 40 per cent since 1990, Mr Kröske said.

Cimpor plans global offer as operating profits rise 28%

By Peter Wise in Lisbon

Cimpor, Portugal's biggest cement producer, yesterday announced plans for a global offer of 40-45 per cent of the state controlled group by mid-July, after reporting a 28 per cent increase in consolidated operating profit in 1995 to Es27.2bn ($178m).

An offering of 45 per cent would be worth Es105.6bn at current prices.

Mr António de Sousa Gomes, president, said he expected about 40 per cent of the offer to be made in Lisbon, 35 per cent in London, and 25 per cent in New York, depending on demand.

The secondary offering follows an initial public offer of 20 per cent in July 1994. A global co-ordinator is to be chosen next week from the investment banks Morgan Stanley, Union Bank of Switzerland and SBC Warburg.

Shares in Cimpor closed down 0.1 per cent yesterday at Es2,795. Analysts said investors had discounted a 27 per cent fall in net consolidated profit to Es18.4bn from Es25.2bn in 1994.

Net profits were hit by a slide in extraordinary items, which fell to Es1bn from Es23.7bn in 1994, when Cimpor sold a Portuguese cement plant and a substantial financial holding.

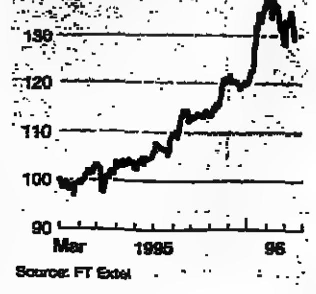
The group is to pay a 1995 dividend of Es115, an increase of 15 per cent if a capital increase to Es84bn from Es70bn is taken into account.

Earnings per share on net profit fell to Es219 from Es361 in 1994.

Sales rose 24 per cent in 1995 to Es118.7bn. Cement consumption in Portugal, the highest per capita in Europe, is expected to grow by between 1-1.5 per cent a year to 2000 and then stagnate or turn down slightly, the group said.

Cimpor is expected to raise Es3.5bn-Es4bn before this year's offer by selling its 12 per cent holding in Banco Fomento e Exterior, a state-controlled bank that is to be privatised shortly.

It also plans to spend Es30bn-Es50bn this year on the purchase of an overseas cement plant. Negotiations are under way with groups in Morocco and Spain, where the group already owns Corporación Nacional, a cement company with sales equivalent to Es25.7bn in 1995.



The state is expected to retain a 35 per cent share in Cimpor over the medium term, but may then sell its holding to a group of Portuguese shareholders. Cimpor's statutes limit the voting rights of shareholders other than the state to 10 per cent, regardless of how much capital they own.

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COMPANIES AND FINANCE: THE AMERICAS

Lehman climbs to $104m in quarter

By Maggie Urry in New York

The surge in US mergers and acquisitions activity was evident yesterday when Lehman Brothers, the investment bank, said it was working on deals with a total value of $58bn at the end of February, a rise from $37bn in the pipeline three months earlier and $19bn a year ago.

Lehman said the increase reflected both the higher amount of M&A work available and its own efforts to rise in the league tables. It is adding 100 bankers to its corporate finance department, of which 20 will be hired from outside the firm.

However, the uneven timing of fees on M&A work meant Lehman's investment banking revenues fell between the fourth quarter of 1995 and the first quarter this year, although at $211m they were 54 per cent higher than a year ago.

Lehman was reporting its first-quarter results, which showed net income of $104m, an increase from $45m in the same period a year ago and from $80m in the previous quarter to end November, excluding a $97m restructuring charge.

Richard Fuld: rise driven by higher revenues and lower expenses

Earnings per share rose to 79 cents from 31 cents in the first quarter of 1995, and 49 cents in the fourth quarter.

Mr Richard Fuld, chairman and chief executive, said "stronger earnings and enhanced margins were driven by the fourth consecutive quarter of higher revenues and lower expenses, amid a period of generally improved market conditions".

The Lehman figures, coming after the rise in profits at Goldman Sachs, augur well for Wall Street firms in general, although there is some concern that the markets have not been so favourable for investment banks this month.

Revenues for the quarter, net of interest, were $821m, a rise of 16 per cent from the same quarter last year and of 9 per cent from the previous quarter.

A programme of reducing non-personnel expenses had cut these costs from $277m in the first quarter of 1995 to $246m this time.

Compensation expenses rose 16 per cent to $416m, in spite of a reduction in staff numbers from 8,428 at the end of February 1995 to 7,703. Staff numbers peaked two years ago at 9,400. Compensation has held steady at 50.7 per cent of net revenues for the last 12 months.

Lehman said the pre-tax operating margin had risen from 9.9 per cent in the first quarter of 1995 to 19.2 per cent this year. Book value per share was $26.41 at February 29, up from $24.69 a year earlier.

Bell Canada sees reward from revamp

By Bernard Simon in Toronto

Bell Canada, the country's biggest telephone company, expects to reap the rewards of a corporate transformation by posting a 40 per cent jump in net income this year.

The expected increase, the first in three years, comes in the face of intense competition in long-distance services, and the entry – probably in 1997 or 1998 – of cable-TV operators and other competitors in the local market.

Bell, wholly owned by BCE, the Montreal-based telecoms conglomerate, has budgeted for net income of C$771m (US$567m) this year, up from C$567m in 1995. Operating cash flow is expected to climb almost 19 per cent.

About 35 per cent of the improvement will come from an increase in local rates, which came into effect at the beginning of this year.

But much of the rest will be attributable to cost-cutting and higher revenues from a range of innovative, value-added phone services, such as a "call waiting" signal and access to incoming callers' phone numbers.

Operating expenses are expected to drop slightly this year, despite a 6.8 per cent advance in revenues. Bell's workforce is due to shrink to 45,300 at the end of this year and 41,000 in 1997, from 51,500 at the end of 1994.

The improved outlook reflects a drive by a new management team over the past two years to shake off Bell's reputation as a slow-moving dinosaur. Bell "has changed colossally", one Toronto analyst said. He cautioned, however, that "many things have to come together for Bell to meet the budget", including retention of long-distance market share and no significant loss of business to wireless services.

BCE shares gained 50 cents in early trading on the Toronto stock exchange yesterday to C$48.50.

The consortium of provincial phone companies, of which Bell is the dominant member, has lost about one-fifth of the long-distance market since deregulation in 1992. However, Mr John Kuhn, a Toronto telecoms consultant, said Bell had been more successful than AT&T, the US group, in maintaining customer loyalty.

Bell said yesterday it was gaining more long-distance customers than it was losing. However, most of these were small residential users, so that its market share in revenue terms was slipping, albeit more slowly than in 1994 and 1995.

A new challenge will come later this year when Unitel Communications, the pioneer of long-distance competition in Canada, emerges from a restructuring as AT&T Canada. The US company, which has a 33 per cent stake in Unitel, is expected to put its muscle behind an aggressive marketing campaign.

Bell is preparing for local competition by seeking regulatory approval for new rate structures that would diminish cross-subsidies between various users. The recent rate increase, as well as a similar one scheduled for early 1997, apply only to residential subscribers.

The cable operators' growing fibre-optic networks and high-capacity cable modems could give them a significant competitive advantage in some services, such as continuous Internet access. Mr Kuhn forecast that revenues of cable companies and other "competitive access providers" would soar from about C$200m this year to C$1.3bn in 2000.

YPF close to sealing deal on US venture

YPF, Argentina's largest oil and gas company, expects in July to conclude negotiations with US companies to form a joint venture to expand its gas production in the US, according to Mr Cedric Bridger, vice president of finance and corporate development, Reuter reports from Rio de Janeiro.

The joint venture was aimed at reducing administrative costs, increasing output and facilitating commercialisation of gas in the US, Mr Bridger said.

The company saw growth prospects in its international operations, particularly in Latin America, he said.

YPF also saw good opportunities in Chile and Brazil. The company has focused gas exploration in the Neuquen and Noroeste basins, from which it intends to develop gas pipeline export routes into gas-poor Chile and Brazil.

Talk of defence, aerospace sale lifts Rockwell shares

By Tony Jackson in New York

Shares in Rockwell, the US manufacturer and defence group, rose almost 5 per cent yesterday on renewed suggestions that it might sell its defence and aerospace operations. Rockwell refused to comment.

While the company has become less dependent on defence in recent years, 28 per cent of its $13bn sales last year were to the US Defence Department and the NASA space agency.

Speculation over a possible sale of the business has been prompted by a wave of mergers in the US defence industry, in response to US government defence cuts.

A report in yesterday's Wall Street Journal suggested the business could be worth $3.5bn. While partly responsible for the rise in the share price, up $2¾ to $61¼, the figure is thought to be too high.

Although analysts regard a disposal as likely, it is not a foregone conclusion. Rockwell has shown interest recently in expanding its defence business as an alternative to selling it.

It is understood to have considered bids for the defence division of Westinghouse, which was sold for $3bn to Northrop Grumman in January, and for E-Systems, bought last year by Raytheon for $2.3bn.

Rockwell is publicly committed to acquisitions on the commercial side of its operations, which range from factory automation to auto components. A recent example was the purchase of the US industrial automation company Reliance Electronics.

At the same time, it has been active in disposals on the commercial side. In January, it said it would sell its Goss and Baker Perkins printing press business, expected to fetch more than $500m.

Rockwell's defence electronics division had sales last year of $987m, and was highly profitable. It is best known for making guidance systems for missiles. The aerospace division, which produces rocket engines and satellites, had sales of $2.4bn. Possible buyers include the aircraft manufacturers McDonnell Douglas and Boeing.

However, the outcome of any auction is unpredictable, since all the remaining large US defence companies are actively seeking to expand by acquisition.

NEWS DIGEST

ConAgra advances despite higher costs

ConAgra, the Omaha-based agribusiness company, yesterday reported earnings for the third quarter ended February 25 of 55 cents a share, up from 49 cents a year ago, on virtually flat turnover of $5.77bn, compared with $5.76bn a year ago. Net income was $128.4m, against $112.5m. For the nine-month period, net income rose 14 per cent to $374m, or $1.63 a share, up from $327.2m, or $1.43, on sales up about 3 per cent to $18.8bn.

The company said it expected feed costs for its poultry and meat operations, mainly corn and soybean meal, to increase by about $70m in the second half of fiscal 1996 from a year earlier. "We expect that the impact in the fourth quarter will be a few cents per share more than it was in the third quarter," Mr Philip Fletcher, chairman, said. "In light of unusually onerous grain costs, I am particularly pleased with our company's performance this year."

ConAgra said weak demand and high grain costs resulted in a substantial drop in operating profits for the US beef business in the third quarter. Pork earnings were above plan, but below last year's exceptionally strong results. Processed meats operating profit decreased in the third quarter and the nine months because of high raw material costs, despite good volume growth in branded packaged meats. Chicken products saw higher operating profits in both periods. Turkey, which was also hampered by high grain costs, saw an operating profit decline in the third quarter, but a substantial rise in profits for the nine months.

ConAgra said its grocery/diversified products industry division saw a significant increase in operating profit in the third quarter and nine months. A good gain in the third quarter in unit volume boosted Hunt-Wesson operating profit growth, while consumer frozen foods saw a significant rise in operating profit. The food inputs and ingredients division increased operating profit in the third quarter and nine months. The crop input, grain processing and grain merchandising businesses and business dispositions last year contributed to what the company called "hefty gains". It said grocery/diversified products registered significant third quarter and nine-month sales growth, as did food inputs and ingredients. Acquisitions contributed to earnings for the grocery/diversified operations. Refrigerated foods saw sales decline in both periods mainly because of lower beef selling prices. The sale of a poultry plant was also a factor.

Reuter, Nebraska

Magna buys Marley division

Magna, the Canadian-based international car parts producer, has bought the component operations of Marley of the UK for C$100m (US$73.5m). The deal includes six fully-owned Marley interior component plants and one joint venture operation, together with annual sales of about C$275m. The company said the acquisition "will enhance our European and global position in the original equipment market". Magna currently has 24,000 employees in 95 plants in 10 countries and has more than C$500m available for further acquisitions.

Robert Gibbens, Montreal

Banco Continental granted loan

Banco Continental, one of Ecuador's largest banks, has been granted a $160m loan from the country's central bank in order to survive a liquidity crisis, a high ranking government official said. The move means the central bank will take temporary control of the troubled financial institution. The central bank will acquire the voting rights of all of the bank's shares and some of its subsidiary companies' shares, such as Banco Continental de Curazao. The shares will be deposited in a trust fund.

The central bank will obtain 13 of the 15 seats in the board of directors, while the bank owners will keep the remaining two. The central bank will later restructure Banco Continental to make it smaller, but leaving enough patrimony for it to remain operating. Banco Continental, which was hard hit by last year's liquidity crisis, will later be placed on sale.

Reuter, Quito

Heinz set for Argentine buy

H. J. Heinz, the US food group, is to acquire a majority interest in Alimentos Pilar of Argentina, a producer of pet food and animal feed. The company declined to specify the size of the interest to be acquired or the terms of the agreement because the deal has not yet closed.

Alimentos, with annual sales of $21m, is Argentina's third largest pet food producer. It will become part of the Heinz Pet Products division, which has sales of more than $1bn. The transaction represents the company's first investment in Argentina.

Reuter, New York

Correction

Yesterday's article on Corning stated that under the divisional reorganisation announced last week, the clinical laboratories business would form part of Corning Technologies. In fact, the laboratories business remains part of Corning Life Sciences, a subsidiary unaffected by the reorganisation.

COMPANIES AND FINANCE: ASIA-PACIFIC

Sun Hung Kai optimistic after 5% first-half rise

By John Ridding in Hong Kong

Sun Hung Kai, one of Hong Kong's largest property groups, yesterday announced a modest increase in profits for the six months to the end of December, but struck an optimistic note about prospects for the Hong Kong market.

Announcing a 5 per cent rise in net profits to HK$5.15bn (US$666m), Mr Walter Kwok, chairman, said he expected property prices to rise over the next two years after sharp falls in 1994-95. The announcement of results came only a few days after the group, in conjunction with Henderson Land, bid HK$4.73bn for a 15,100 sq m plot of reclaimed land in Hung Hom Bay in Kowloon.

The bid was seen as evidence of recovery in the Hong Kong property market, which suffered price falls of between 20 per cent and 30 per cent after the peak of spring 1994.

Industry analysts said the results were satisfactory, if at the lower end of expectations. "What was more striking was that they are bullish for the next couple of years," said Mr Adrian Ngan, property analyst at SBC Warburg in Hong Kong.

Mr Kwok said that, in view of a lower supply of residential flats in 1996 and 1997, prices were expected to rise in the next two years.

"Population growth will continue with an influx of immigrants from China and returnees from overseas.

"In the long run, due to strong housing demand and limited supply, the prospects of the residential property market in Hong Kong are promising," he said.

Industry analysts reflected such forecasts in their predictions for profits over the next few years. While full-year profits this time are expected to grow only modestly, to about HK$10.8bn, next year is expected to yield a net result of more than HK$13bn.

During the first half of the current fiscal year, turnover rose from HK$11.01bn to HK$13.64bn.

Operating profits rose from HK$5.62bn to HK$5.81bn. Earnings per share were HK$2.22, compared with HK$2.11, while dividends edged up from HK$0.58 to HK$0.60.

According to a statement from the group, which is diversifying into infrastructure and communications, non-property activities are promising. The digital mobile telephone operation, Smartone, saw subscribers break the 170,000 level and made a contribution to earnings. Road and airport freight projects were also on track, Sun Hung Kai said.

The company outlined a prudent and selective policy regarding its investments in China. "Total investments in China will not exceed 10 per cent of the group's assets. The currently committed projects, amounting to 3 per cent of assets, are mainly focused on major cities such as Beijing, Shanghai, and Guangzhou," the group said.

Sun Hung Kai said it owned a land bank in Hong Kong of 43.4m sq ft in terms of attributable gross floor area. It also owns agricultural land in the New Territories.

Australian goldmining strikes rich vein of deals

Institutional concerns and North American interest are two roots of the recent activity, says Nikki Tait

Anyone in search of corporate activity need look no further than Australia's goldmining sector.

Over the past year, deals have flowed with abundance. Some schemes have been large and complex, such as the plan by Mr Robert Champion de Crespigny to create a A$3bn (US$2.32bn) mining house by merging the Normandy Mining group and three of its related but separately listed companies – PosGold, Gold Mines of Kalgoorlie, and North Flinders Mines.

Others have been well below the A$100m mark, and relatively straightforward – Ross Mining's offer for Auralia Resources, for example, or Resolute Samantha's bid for Associated Gold Fields.

But the big question is why such a concentrated outbreak of deal-making should be occuring, and why now.

Analysts have a variety of explanations. The first centres on the degree of North American interest in the sector. For example, Idaho-based Coeur d'Alene Mines is one of the rival bidders for Western Australia's Gasgoyne Gold Mines. Homestake Mining last year moved to buy out the remaining shares in Homestake Gold of Australia which it did not already own; Pegasus Gold did likewise with Zapopan. Battle Mountain Gold confirmed that it was holding talks with Mount Edon Gold Mines, although these eventually proved unfruitful. This interest, in turn, is usually attributed to the increasingly restrictive regulatory and environmental climate within North America itself – and the fact that Australian mining companies can often offer ways into other prospective countries in the region.

No flash in the pan: goldmining in Kalgoorlie, Western Australia, an area set for more deal activity

Photograph: Glyn Genin

Coeur d'Alene, for example, has said that it sees the possible acquisition of Gasgoyne – which has an interest in a Sulewasi gold project as well as larger assets in Western Australia – as "as first step in creating a major gold company in the Australasian region".

Second, there is the growing realisation that institutional funds are interested in size. From the goldminer's standpoint, capital-raising becomes significantly easier once a certain critical mass is reached. "The investment market is biased to towards the top end," says Mr David Walker, analyst with ABN Amro Hoare Govett.

Third, and most controversial, there is the more technical issue of goodwill treatment in takeovers of goldmining companies. In general, the book value of such companies lies a long way below the value which the stock market places on their assets, meaning that a bidder has the problem of what to do with the resultant goodwill.

Amortising goodwill over the life of the mines in question – the conventional Australian accounting treatment – can be a big drain on earnings and even affect the merged company's ability to pay dividends.

While the goodwill factor may not constrain overseas bidders, it has traditionally been viewed as the biggest obstacle to deals between Australian goldmining companies. Last year, however, Renison Gold Fields, via the newly-created offshoot Goldfields, mounted a bid for Pancontinental Mining, and its advisers came up with a more innovative approach. Relying on the wording of Corporations Law rules for all-share offers, rather than the usual accounting conventions, they managed to take the acquired assets on to Goldfields' books at "fair value".

Fair value, in turn, was assessed using discounted cashflow analysis of existing reserves – an exercise which tends to throw up a number closer to book value than the higher value which the stockmarket places on the assets. In short, the goodwill problem was minimised.

Since then, several other would-be acquirers have followed this lead, including Acacia Resources – in its A$87m offer for Solomon Pacific Resources – and Ross Mining in its Auralia bid.

But there are still some big reservations about the new approach. Only yesterday, Solomon, which is contesting the offer from the larger Acacia group, won an injunction preventing the bidder from sending out its offer documents, largely because of the planned goodwill treatment.

"The court found that the way in which Solomon's assets have been treated in the pro forma consolidated balance sheets is inconsistent with the *accounting standards* and ... the Corporations Law cannot account for the inconsistency," said Solomon in a statement. A further hearing will take place on Monday.

Technical though the issue sounds, it may make a critical difference to the ability of some Australian gold producers to participate in the current takeover wave.

That consideration notwithstanding, few analysts believe the bid flurry is about to end. "This has been brewing for a long time," says one, "although exactly when deals crystallise is harder to predict."

Westpac to buy back 95m shares with surplus capital

By Nikki Tait in Sydney

Westpac, one of the big four Australian banks, yesterday announced plans to buy back and cancel 95m shares, or about 5 per cent of its issued equity, through stock market purchases.

It is the first of the big Australian banks to announce such a scheme under "regular" circumstances, although Australia and New Zealand Banking Group (ANZ) made a cash buy-back offer for ordinary shares issued when some preference shares were converted last year.

Commonwealth Bank also has a share repurchase programme under active consideration but, if this goes ahead, it would probably be timed to coincide with the federal government's sell-down of its remaining 50.4 per cent interest in the bank.

The issue of how the Australian banks should manage their surplus capital has been an increasingly pressing one, with most leading banks posting capital ratios well in excess of minimum requirements.

National Australia Bank, the largest of the Australian banks, leveraged up its balance sheet in slightly different fashion last year, by acquiring Michigan National, the US bank, for cash. However, other banks have appeared wary of overseas acquisitions, and domestic opportunities are increasingly limited.

Yesterday, Mr Robert Joss, Westpac's American managing director, said the buy-back represented an important aspect of the bank's capital management programme.

Asset and liability management had long been a core discipline for the bank, and the programme followed a "forward-looking view of credit risk management".

"This buy-back represents an important step in managing our capital structure to enhance shareholder returns," he said.

The buy-back will take place over an initial one-month period, extendable for six months or until the 95m shares have been acquired. County NatWest Securities and Ord Minnett will handle the buying on Westpac's behalf.

While the banking sector remains a special case, share buy-backs have also become more common among Australian companies generally. Pacific Dunlop, the Melbourne-based conglomerate, announced last year that it would buy in up to 10 per cent of its equity.

Westpac shares closed 2 cents lower at A$6.06.

NEWS DIGEST

Interest income puts Cepa ahead

Consolidated Electric Power Asia (Cepa), the independent power project company spun off from Hopewell Holdings of Hong Kong in November 1993, yesterday announced a 25.7 per cent improvement in net profits, from HK$235.16m in 1994 to HK$295.6m (US$38.2m) in the six months to last December. The dividend was held at 6 cents.

There have been setbacks with some power plant projects: a Cepa bid for a plant in the Philippines was rejected – although it may rebid – and technical problems (caused by vibration in the station's GEC-Alsthom equipment) delayed completion of Shajiao C in China.

Some HK$260m of Cepa's profits were attributable to interest income, with plants in the Philippines generating some HK$22m and those in China more than HK$10.

Mr Holden Lee, director of Cepa, said: "Shajiao C is still coming on line, but we are expecting that if each of the three units is operating fully it will be worth around US$10m in revenue per unit per month." The last unit to come on line is expected to be ready in April.

Revenues from Pagbilao, of which Cepa holds 87 per cent, in the Philippines will generate revenues of US$230m a year.

Louise Lucas, Hong Kong

Australis gets short-term funds

Australis, the Australian pay-TV operator, said yesterday it had received a further US$5m loan from Tele-Communications Inc, the large US cable-TV company which holds a stake in the Australian group, and Lenvest Communications, its associate. Australis added that it was continuing to negotiate long-term funding with TCI/Lenvest.

Australis' shares fell sharply this week after the company announced a A$97.5m (US$75.5m) loss for 1995, and revealed that it was trying to negotiate a financing package with TCI. Yesterday morning, its shares reached 53 cents at one stage, compared with 78 cents at the end of last week. News of the temporary funding helped them to close at 60 cents, still 6 cents down on the day.

Despite the funds, Standard & Poor's, the US rating agency, said it had revised the credit watch implications on Australis' B-minus long-term credit rating and its triple-C subordinated note rating, from positive to negative.

At the start of 1995, Australis, which holds a satellite broadcasting licence but also uses the MDS delivery system, became the first pay-TV company to operate in Australia. But last year, two cable consortia also started networks. Plans by Australis to merge with one of these – a partnership between Mr Rupert Murdoch's News Corporation and Telstra, the telecommunications group – were blocked by the competition authorities.

Nikki Tait, Sydney

Profits up at Pakistan bank

National Bank of Pakistan, Pakistan's third largest public sector bank, will today announce a significant rise in in profits and deposits for 1995.

Pre-tax profits rose from Rs2.8bn in 1994 to Rs3.08bn ($87.6m) last year, while deposits rose from Rs170.4bn to Rs208.2bn.

Farhan Bokhari, Karachi

Cables deal for S Korea team

A South Korean consortium of Kolon International, a leading general trading company, and Daesung Electric Wire has won a $30m contract to supply electric cables and wires to the Philippines, Kolon said yesterday. Shipments would begin in June and be completed in December 1998, Kolon said.

Reuter, Seoul

LG unit to invest $200m in CIS

LG Electronics, a unit of South Korea's LG Group, will invest $200m by 2003 in building electronic appliance factories in four nations of the Commonwealth of Independent States, the company said yesterday.

Reuter, Seoul

Telstra doubles call capacity

Telecom Australia (Telstra), Australia's leading telecommunications provider, has doubled its trans-Tasman call capacity before a formal launch of services in New Zealand next week, the New Zealand Press Association reported yesterday.

Telstra New Zealand, a locally registered, wholly-owned subsidiary of Telstra, late last year raised its capacity on the Tasman Two fibre optic cable from two megabits a second to 10.

Reuter, Wellington

Record palm oil prices behind 5% rise in operating profits to £130m

H&C to end last colonial link

By Peggy Hollinger

Harrisons & Crosfield, the conglomerate which began life as a nineteenth century tea trader, is considering severing links with its colonial past by floating the palm oil plantations business in Papua New Guinea.

It is estimated that Harrisons, which has been withdrawing from plantations since the 1994 sale of its Indonesian interests for £273m could raise some £30m ($46m) from a flotation of its 54 per cent stake. This would value the plantation at about A$100m. Although no decision has yet been made, Australian analysts expect an announcement in the next two months.

Record palm oil prices last year helped Harrisons to report a 5 per cent rise in operating profits to £129.8m for the year to December 31, on sales 3 per cent lower at £2.05bn. Pre-tax profits fell from £236.7m – which included a £143.4m gain on disposals – to £119.6m.

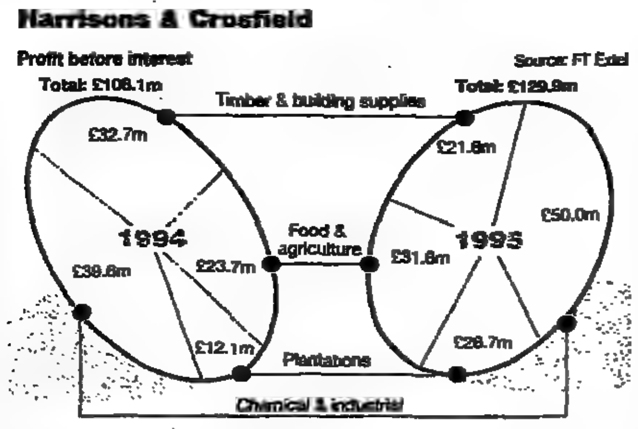
Mr Turcan said yesterday that in spite of a good performance from plantations, and advances in its chemicals, food and agriculture businesses, Harrisons faced a difficult 1996. Palm oil prices had fallen back from the record levels of 1995, and the group's timber and building supplies operations were experiencing a slow start to the year.

Harrisons needed "a recovery in demand, particularly in the UK building sector, if we are to meet the stretching targets we have set ourselves," he said. The shares slipped 4p to 167p.

Harrisons has spent the past year restructuring its timber and building supplies operations, at a cost of £5.4m, to offset the severe downturn in the construction industry. However, margins at less than 4 per cent were still far below the industry average of 7 per cent, Mr Turcan said.

Timber and building supplies showed a 34 per cent drop in operating profits to £21.6m.

Food and agriculture profits rose from £23.7m to £31.6m, helped by flying pig prices. Chemicals increased by 26 per cent to £50m at the operating level, and the plantations business more than doubled from £12.1m to £26.7m.



UK bankers in Deutsche reshuffle

By Nicholas Denton

Mr John Craven, the Morgan Grenfell executive who secured the UK merchant bank's sale to Deutsche Bank in 1989, is set next week to hand over his seat on the powerful board of managing directors of the parent German bank.

The membership of the Deutsche Bank Vorstand – seen as the most prestigious position in German finance – will pass to his successor as chief executive of Morgan Grenfell, Mr Michael Dobson.

It is understood that Mr Craven will remain on Deutsche's five-man investment banking board, and retain the largely titular position of chairman of Morgan Grenfell Group. Mr Craven, 55, is expected to focus on client relationships.

Mr Dobson, 43, became chief executive of Deutsche Morgan Grenfell when the investment banking businesses of Deutsche Bank and Morgan Grenfell were fused last June. His ascension to the Vorstand quashes the idea that he was only an interim head of the merged investment bank.

Mr Dobson will attend the board's regular Tuesday meetings in Frankfurt with Mr Hilmar Kopper, "speaker" of the Vorstand, and other senior Deutsche Bank executives.

Deutsche Morgan Grenfell said reports of the change were "pure speculation". However, it is understood that a proposal on the Vorstand reshuffle is scheduled to go before the Deutsche supervisory board at its meeting next Wednesday.

The bank is expected to reveal its annual results a day later. Strong growth is forecast in debt trading and other activities in its global markets business.

Flextech in satellite talks

By Raymond Snoddy

Flextech, the cable and satellite programming group which has an interest in or manages 13 channels, is in negotiations to buy control of UK Gold and UK Living, two satellite channels.

Flextech, controlled by Tele-Communications Inc of Denver, holds minority stakes and is in talks with Cox Communications, the US media group, to buy its 35 per cent holdings in both channels.

Flextech also announced it had reached conditional agreement to buy the outstanding 61 per cent of International Family Entertainment UK and that it had reached agreement with Home Shopping Network of the US to acquire a controlling interest in its "infomercial" business.

The IFE UK deal is worth £30.5m ($47m) satisfied by £3m cash and nearly 5.8m new, non-voting Flextech convertible shares. IFE UK's main business is the loss-making Family Channel, and its assets include the former TVS studios in Maidstone, which will be used by Flextech's channels.

Flextech Homeshopping, a new Flextech subsidiary, will acquire worldwide rights from Home Shopping for the business, in which programming is based on long commercials.

A new Flextech Homeshopping service for the UK, available during hours when satellite channels are not otherwise being used, will be launched later this year.

Roger Luard, chief executive, home shopping launch

Restructuring and US buy helps Weir to 50% advance

By Tim Burt

Shares in Weir Group yesterday rose 23p to 258p after the pumps and engineering business announced a 50 per cent increase in profits for the year to December 29.

The rise reflects the benefits of last year's reorganisation of its pumps operation and maiden full-year contributions from EnviroTech, the US specialist pumps company acquired for $210m 18 months ago.

Although the improvement was flattered by a £7.8m exceptional reorganisation charge in 1994, the company still reported a healthy increase in operating profits.

Sir Ron Garrick, chief executive, said Weir was now able to contemplate another sizeable acquisition, probably in the pumps or valves sector.

He hinted that the group could comfortably absorb an acquisition of about £100m in the UK or US, which would push gearing from 5 per cent at the year end to about 50 per cent. The search has been stepped up following a sharp rise in orders, he said.

Beazer loses sales to keep margins

By Andrew Taylor, Construction Correspondent

Beazer lost its position as Britain's second-largest housebuilder in the final six months of last year after it reduced sales rather than allow profit margins to fall.

The group, which yesterday reported a 24 per cent decline in pre-tax profits to £18.5m in the six months to the end of December, saw its share of private new house sales dip from 4 per cent to 3.5 per cent. The number of sales fell 22 per cent to 2,570.

Mr Dennis Webb, chief executive, said Beazer had preferred to hold on to development sites so their value could be unlocked when the housing market improved. Demand for homes already had risen sharply in the first three months of this year.

He warned however that the recent revival in sales – Beazer's net reservations were now running 50 per cent higher than in the second half of 1995 – could be stemmed by an early general election.

The group's policy of restricting sales was in marked contrast to rival housebuilders, several of which reported falls in operating margins last year. Companies seeking to attract buyers were forced to offer attractive sales incentives including discounts and part exchange deals which ate into margins.

General Cable buy behind Wassall 32% rise

By David Wighton

Wassall, the UK-based conglomerate, yesterday demonstrated the success of its General Cable acquisition 18 months ago by unveiling a 32 per cent increase in annual profits to £55.1m ($84m) before tax and exceptional items.

Mr Chris Miller, chief executive, said there had been an "outstanding performance" from US-based General Cable which had met targets set at the time of the acquisitions two years early. "It is not just that we have brought forward everything by two years. There is a lot more there than we thought at the time."

In addition to a cost reduction programme, Wassall has been able to generate much better growth than expected from General Cable, where volumes rose 6 per cent last year in spite of the weak market for building wire.

Mr Miller said the group now had the financial and management resources to take on another big acquisition, but that given the prospects for the existing businesses it would be very selective.

"With analysts talking about earnings growth of 20 per cent this year, any deal would have to do at least that well. Not only can we afford to be careful, we have to be."

Excluding exceptional items and the effect of copper price movements, earnings per share rose 30 per cent to 17.4p last year, the strongest growth since the current management team was installed in 1988. On the same basis, pre-tax profits rose 42 per cent to £50.7m.

General Cable saw operating profits jump to £31.8m on sales up 18 per cent at £671.7m. Margins reached 4.7 per cent, which Mr Miller said was close to the 6 per cent target set at the time of the acquisition, allowing for the rise in the copper price.

General Cable has seen very good growth in telecommunications cable, where its market share has doubled to about 30 per cent since the acquisition.

Excluding General Cable, operating profits were slightly down due to the impact of the weak US do-it-yourself market on DAP – where profits fell to £10.4m (£13.5m) – and the margin squeeze in bottle tops caused by the sharp rise in raw materials prices. But margins in both businesses are expected to improve this year.

Britannic Assurance seeks to modernise

By Alison Smith, Investment Correspondent

Britannic Assurance, the life and pensions group, is undertaking a programme of change to modernise its business and become more cost-effective.

Mr Brian Shaw, general manager and actuary, said the company was considering how to make the sales force more productive and whether to move into new product areas such as unit trusts and personal equity plans.

Britannic has already said that it wants to withdraw from motor insurance, and plans to move into health insurance later this year.

Mr Shaw said the 2,150-strong sales force would probably be reduced over the coming months, and that there was likely to be a substantial reduction in the 210 branches the company currently ran.

At the same time, it is bringing in the use of hand-held computers by its sales agents and looking at making more use of the telephone in its still traditional business where sales agents visit customers in their homes to offer advice and collect payments.

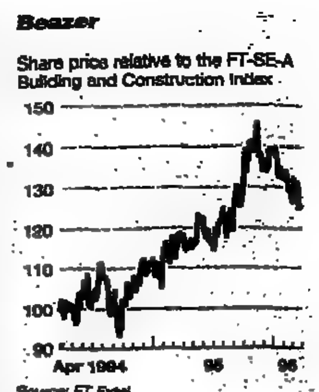
His comments came as Britannic announced an 80 per cent rise in pre-tax profits for 1995 to £63.8m ($98m), against £35.5m. In accordance with the EU insurance accounts directive, this figure includes realised and unrealised investment gains and losses, and so is more volatile than operating profit.

Operating profits rose 7 per cent to £50.6m (£47.3m) as a small dip in profit from industrial branch business – relatively limited products for which small premiums are collected every few weeks from customers' homes – and a fall in general insurance profits to £1.6m (£2.3m), were more than offset by increases from the other elements of the life assurance business.

Britannic would not say how its talks were proceeding with the Department of Trade and Industry about its surplus or "orphan" estate within the long-term life fund, but it seems likely that this will be resolved before the end of the year.

LEX COMMENT

Beazer



Beazer's decision to sacrifice volume for the sake of preserving margins may well be a case of making a virtue out of necessity. But it is a virtue nonetheless, given the dire state of the housing market. Still, though the strength of its balance sheet and its landbank put Beazer in a stronger position than some of its rivals, the task of increasing margins from here is likely to be tricky. Although Beazer's operating margin edged up to 11.2 per cent, the fact remains that the average cost of private residential land increased while the average selling price fell. The recent spate of acquisitions and asset swaps in the housebuilding sector may have reduced the number of competitors, but it has so far done little to reduce intense competition.

The problem is that the most important raw material for housebuilders – land – is difficult to buy. Despite the weakness of the housing market, land prices remain high, partly because too many housebuilders are still chasing volume in an effort to shore up profits.

There is still the prospect that higher house prices will help bale companies out. Reservations have been more robust in the first quarter, and hopes are pinned on the impact of tax cuts. This should at least prevent a repetition of the rapid slide in the market which occurred after Easter last year. Whether it will be sufficient to provide a significant boost in the face of negative equity and continuing job insecurity is less certain. The ready supply of old houses at low prices means that sales incentives and discounts are likely to remain the norm in the new housing market.

DIGEST

TI's US fraud case may go to appeal

Lawyers acting for the US government have filed notice of appeal against the decision of a New York court to dismiss a $60m fraud action involving TI Group, the UK engineering and aerospace company. The solicitor general in Washington has backed the appeal, in which the US justice department has joined forces with a former TI employee who claims the company defrauded the US air force. They are trying to overturn a ruling by Judge Louis L. Stanton that there was no jurisdiction to try the case in New York.

CRH makes $87m US buy

CRH, the Irish building materials group, is continuing to expand its US quarries business via the $87m cash purchase of The Jack B. Parson Companies, with aggregate interests in Utah, Idaho and Nevada. The consideration includes the assumption of about $25m of debt. Parson, which has more than 90m tons of reserves, last year generated trading profits of $15m on sales of $108m. *Andrew Taylor*

Devro to rationalise Teepak

Devro International, the sausage casing maker, warned yesterday it may spend £10m rationalising Teepak International, the US casing manufacturer it recently acquired for $133.5m. *James Buxton*

Blenheim restores credibility

Blenheim Group, the exhibitions organiser, further restored its credibility – lost through a series of profits warnings in recent years – by reporting a 17 per cent rise in 1995 profits. The result was buoyed by contributions from several of the group's largest shows that are held only on alternate years. *Geoff Dyer*

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Beauford	Yr to Dec 31	41.1	(33.6)	2	(1.53♥)	3.87†	(5.3)	0.4	July 1	0.25	0.4	0.25
Beazer Homes	6 mths to Dec 31	158.2	(204.5)	18.5	(24.5)	4.6	(6.2)	2	Apr 29	1.85	-	5.85
Blenheim	Yr to Dec 31	202.5	(187.2)	35.6	(30.3♠)	18	(15.7)	7	July 5	6.85	10.5	10.35
BRS Resources	Yr to Dec 31	102.4	(86.8)	5.72	(3.62♠)	17.2	(10.1)	4.4	May 24	3.73	6.4	5.5
Brandon Hire	Yr to Dec 31 #	14.3	(6.51)	1.5♠	(0.715♠)	8.7	(4.1)	1.5	-	1.2	2.25	1.2
Britannic Assurance	Yr to Dec 31 ✦	387.2☐	(410.5☐)	63.8	(35.5)	25.17	(10.34)	10.8	May 21	9.75	16.4	14
Brunel	6 mths to Dec 31	93.9	(87)	0.13	(12.6♥)	0†	(10.9)	nil	-	nil	-	0.5
Canning (W)	Yr to Dec 31	74.5	(99.3)	7.02	(10.6L♠)	15.4	(47L)	4.8	July 1	4.56	8	7.5
Clinton Cards	Yr to Jan 28	109.8	(84.3)	3.24	(2.63)	12.05	(10.23)	3.35	May 28	3.11	5.1	4.71
Devro Int'l	Yr to Dec 31	97.8	(98.4)	31.1	(29.1)	17.4	(16.4)	5.1†	May 23	4.7	7.7	7.05
Essex & Suffolk	11 mths to Feb 29	92.9	(87.3)	29.8	(27.4)	227	(204)	43.4	July 15	41.48	88.8	82.28
Evans Halshaw	Yr to Dec 31	834.8	(668.7)	13.5♥	(13.5)	28.8†	(34.2)	11	May 17	10	16.5	15
Flextech §	Yr to Dec 31	34.9	(23.2)	16.4♥	(18.5L)	6.32	(21.53L)	nil	-	nil	nil	nil
Harrisons Crosfield	Yr to Dec 31	2,047	(2,110)	119.6♠	(236.7♥)	10.5	(27.3)	5.4	July 1	5.4	9	9
Keller	Yr to Dec 31	218.9	(195.6)	11.2	(9.38)	11.7†	(12.2)	3.55大	May 31	3.3大	5.3大	3.8大大
Kwik-Fit	Yr to Feb 29	365.4	(297.6)	35.3	(29.3♥)	14.7	(11.9)	3.1	May 10	2.7	5	4.4
Marley	Yr to Dec 31	713.9	(666.8)	46.3♥	(58.7♥)	10.2†	(15)	2.6	May 31	2.6	4.7	4.7
Matthews (B)	Yr to Dec 31	302	(283.5)	18.7	(18.6)	10.45	(10.32)	2	May 3	1.82	3.39	3.14
Newman Tonks	Yr to Dec 31	277.8	(276)	27.2♥	(20.2)	14.11†	(10.85)	4	May 31	4	8.9	6.75
OGC Int'l	Yr to Dec 31	232.9	(269.6)	14.2	(12.9)	14.79	(13.55)	4.3	May 22	3.8125	6.3	5.75
Richardsons W'garth	Yr to Dec 31	104.6	(81.1)	4.83	(3.24)	8.6†	(6.1)	2.25	-	2.1	3.65	3.4
Ropner	Yr to Dec 31	27.1	(24.6)	4.62♥	(4.41♥)	12.9	(12.4)	4.75	May 10	4.75	8.25	8.25
Sheffield Resources	Yr to Dec 31	6.14	(6.5)	1.87	(1.9)	0.8	(3.1)	-	-	-	-	-
Stanleigh	Yr to Dec 31	38.5	(24)	1.45L	(0.65L)	0.27L	(0.28L)	nil	-	nil	nil	0.05
Telspec	Yr to Dec 31	58.8	(36.3)	8.73♠	(6.56)	17.89	(14.4)	3.6	May 20	2.5	5.4	3.7
Town Centre	6 mths to Dec 31	11.9♦	(10.6♦)	4.24	(4.21)	2.38	(2.37)	1.05	June 28	1	-	3.25
Trinity Int'l	Yr to Dec 30	167.9	(184.5)	27.5	(22.9)	21.5†	(21.8)	7.4	May 3	7.4	10.7	10.7
Usborne	6 mths to Dec 31	88.5	(97.7)	0.325	(0.438L)	0.76	(1.97L)	nil	-	nil	-	nil
Wace	Yr to Dec 31	311.9	(323.5)	20.5♠	(23.1)	14.7	(21)	4	-	3.75	5.85	5.25
Wassall	Yr to Dec 31	972.9	(838.75)	7.5♥	(21.9♠)	19.5	(8.3)	2.85	May 17	2.05	5.5	4.1
Weir	Yr to Dec 29	622	(475.5)	45.5	(30.5♠)	16.6	(13)	5.3	June 14	4.8	7.5	6.96
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dartmoor	9 mths to Jan 31	104.2	(96.2)	5.84	(3.86)	12.13	(12.04)	2.9‡	Apr 30	2.8	-	12‡‡
Kleinwort Smaller	Yr to Jan 31	175.1	(136.5)	0.446	(0.285)	3.38	(2.16)	2	May 17	1.1	3.3	2.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. #Comparatives for 8 months. ✦Comparatives restated. ☐Net premium income. §USM stock. 大Foreign income dividend. 大大Part FID. ♦Gross rental and investment income. ‡Third interim, makes 8.7p to date. ‡‡Includes special of 0.4p; special distribution also indicated for current year.

Marley falls 21% and unveils sale

Marley, the building materials group, yesterday announced the £53.2m ($81m) sale of most of its automotive components business as it reported a 21 per cent fall in annual pre-tax profits to £46.3m, writes Andrew Taylor.

Magna International of Canada is buying Marley Automotive Components in the UK, Karl Fels in Germany, and Marley's 50 per cent share in a joint venture with Kansei of Japan. The three companies manufacture plastic instrument panels and components.

The UK group is also discussing the sale of its stake in its Davidson Marley joint venture, the remaining part of its automotive division. This is expected to fetch more than £20m.

Marley said automotive companies were now seeking global rather than regional manufacturing facilities and expected component suppliers to develop similar manufacturing and marketing strategies.

Mr David Trapnell, chief executive, said profits, excluding restructuring costs and gains on disposals fell 9 per cent to £43.6m (£47.8m).

Syroco, the US plastic garden furniture manufacturer bought last March for $140m made "disappointingly small" operating profits. It had also been affected by high resin costs, poor weather and generally weak US retail sales.

COMMODITIES AND AGRICULTURE

Canada leads silver production 'mini-boom'

By Kenneth Gooding, Mining Correspondent

A "mini-boom" in silver production is taking place, according to the CRU International metals consultancy. Last year Canada lead the way and "a surprise revival" is now also occuring in the US.

CRU estimates that mined silver output outside the former eastern bloc countries increased by 10 per cent last year to 11,496 tonnes. Much of the rise was accounted for by Canada, where production increased by nearly two-thirds to 1,254 tonnes.

However, after falling to a seven-year low in 1994, US silver production is on the rise again from mines that have silver as their main product. (About 85 per cent of silver production is as a by-product of other metal mining.)

Among the "pure" silver mines to be re-activated are Coeur and Galena in Idaho. Silver Valley Resources, a joint venture by Asarco and Coeur d'Alene Mines, intends to re-start these mines in June after identifying several new exploration targets. SVR plans to produce at an annual rate of more than 90 tonnes (3m troy ounces).

Meanwhile, Sunshine Mining is bringing its Sunshine mine, also in the Coeur d'Alene silver mining district in Idaho, back to full production. Output will rise from 1.7m to 3.2m ounces a year, to give nearly 50 tonnes more of silver.

Royal Silver Mines, which owns the Crescent mine neighbouring the Sunshine, also hopes to raise the money to re-start mining. Royal aims to produce 400,000 ounces this year (12.4 tonnes).

CRU, in its March Precious Metals Monitor, says that Chile continues to advance as a big silver producer, the latest addition being the Fachinal gold-silver mine owned by Coeur d'Alene Mines and near the town of Chile Chico in the south of the country. This mine is scheduled to produce 2.7m ounces (84 tonnes) of silver as well as more than 40,000 ounces of gold a year. In mid-1996 there should also be a substantial expansion at the Escondida copper mine, operated by BHP of Australia, which will produce an extra 60 tonnes of silver annually.

Only Australia showed a fall in silver output last year – because of strikes at Mount Isa – but in late 1997 the Cannington lead-zinc mine is scheduled to be commissioned and this is expected to yield 24m ounces (nearly 750 tonnes) of silver a year – equivalent to 6 per cent of last year's total western world mine output.

Substantial additions to silver output are occuring at a range of properties elsewhere, including those in Tunisia, Turkey and Indonesia, where the Freeport McMoRan copper operations in Irian Jaya are expected to be greatly expanded.

Looking back at 1995, CRU, suggests the 8.5 per cent increase in silver output in Mexico, the western world's biggest producer of the metal, to 2,495 tonnes, seems "improbably large."

However, it might be that one or two big polymetallic sources of silver, such as Real de Angeles, "have quietly expanded their operations."

Mine Production of Silver (tonnes)

	1995	1994
Mexico	2,495	2,300
Canada	1,254	775
US	1,464	1,382
Peru	1,871	1,824
Australia	915	1,045
Others	3,497	3,100
Total	11,496	10,426

Source: CRU

Conflicting messages sent about Brazilian gold mine expansion

By Kenneth Gooding

Brazil's second largest gold mine is to be expanded but there are conflicting messages from the owners about the scope of their plans. They cannot even agree on the name of the mine – RTZ/CRA calls it the Morro do Ouro while TVX Gold calls it as the Brasilia.

RTZ/CRA, the world's biggest mining company and 51 per cent owner and operator of the mine, says it will be expanded from last year's output of 162,000 troy ounces of gold to an average of 210,000 for seven years from early 1998. RTZ/CRA puts the cost at US$47m.

TVX, the Canadian company that effectively owns 33 per cent, says the total cost of the expansion will be $65m, including about $45m to expand gold output. While that costing is roughly in line with RTZ/CRA's estimate, TVX says production will increase to 260,000 ounces – giving twice as many extra annual ounces as the RTZ/CRA prediction.

The open pit, low-grade mine came into production in 1987 at a cost of $62m, initially producing 96,500 ounces a year and with an expected life of 15 years. As part of the expansion programme the mine is to give up employing mining contractors and will have its own fleet. TVX says $14m already has been spent on new Caterpillar bulldozers, loaders and 85-tonne trucks.

Seed breeders win 'fairer deal' in UK

Farmers have agreed to pay royalties on seed saved from their own crops, writes Alison Maitland

This autumn, British arable farmers will for the first time pay royalties to plant breeders when they use seed they have harvested themselves rather than bought.

The use of so-called farm-saved seed has until now been exempt from charge – an increasingly contentious situation.

Following pressure from European Union plant breeders, EU member states decided in September 1994 that farmers should pay royalties on farm-saved seed from the autumn of last year. But they did not set out the rates or method of payment.

After 18 months of often acrimonious negotiations, UK farmers' representatives and plant breeders finally reached agreement last week. The deal is believed to be the first in the EU, but France and Germany are also understood to be close to resolving the issue.

Mr David Taylor, chairman of the British Society of Plant Breeders, said: "In recent years the decline in the use of certified seed has both reduced plant breeders' income and placed an unfair burden on farmers who opt to sow certified seed. The system was becoming untenable."

Sir David Naish: Says deal allows all parties "to look to the future with confidence".

Many plant breeding companies in the UK have run into financial difficulties and had to cut staff and breeding programmes in the past two years.

The society says use of farm-saved seed has grown from a negligible amount in the mid-1960s to between 25 per cent and 30 per cent of the total seed used. Levels are even higher in some southern EU states.

Farmers save seed both to cut down on the cost of buying it – winter wheat seed can cost over £300 a tonne – and for convenience. They incur other costs in processing the seed and checking the crop for possible disease or weeds, and on the loss of seed which would otherwise be sold as grain.

Mr Taylor said the new system would be "fairer for all" and would help keep the arable sector profitable in highly competitive international markets.

The society says it takes an average of 15 years to develop a new variety. Plant breeding has become more complex, with varieties having to be tailored to particular uses such as barley for malting, or to be designed to withstand reductions in pesticide use.

Farmers' representatives were initially opposed to payments and the National Farmers' Union of England and Wales vetoed an earlier deal in 1991. When negotiations began in order to comply with the EU regulation, the NFU was arguing the rate should be set at about 20 per cent of the cost of certified seed, while breeders were calling for 80 per cent.

Sir David Naish, NFU president, said there had been "much hard bargaining" but the deal allowed all parties "to look to the future with confidence".

Each crop will carry a single payment rate. The payment for farm-saved wheat seed will be £4.25 per hectare and for winter barley £3.60. The NFU said that would be equivalent to 60p per tonne harvested, on average yields.

The royalties will apply to cereals, oil and fibre crops, fodder plants and potatoes.

Farmers with more than 15 hectares of the relevant crops will pay breeders only on land sown with varieties on the European Plant Variety Rights list, which was established last year. The plant breeders' society estimates at least a third of varieties will be affected, and this proportion will grow as new varieties are added to the list.

There will be a concession for farmers who can show they saved a variety before September 1, 1994 – they will not have to pay a royalty until 2001.

Collecting payments from up to 78,000 arable farmers is a potentially costly business. So both sides have reached a deal with the National Association of Agricultural Contractors to collect the royalties when it bills farmers for cleaning and processing farm-saved seed.

Jute output tumbles in India and Bangladesh

Mills are finding it increasingly difficult to maintain production of goods, writes Kunal Bose

Jute production in India and Bangladesh, the world's leading producers, has taken such a beating in the current season (July-June) that the mills are finding it increasingly difficult to get enough fibre to maintain output of jute goods. The Indian mills are in a worse predicament as, unlike Bangladesh, India has been a net importer of jute for the past few years.

India, which last year imported 330,000 bales (180kg), mostly from Bangladesh, will find it difficult to organise imports of more than 100,000 bales this season, according to Mr D.J. Wadhwa, managing director of Champdany Industries, the country's leading jute group. Not only had Bangladesh a small export surplus in 1995-96, but the movement of raw jute by road had become uncertain because of the political crisis there.

The shortage of raw jute in Bangladesh has raised the price to a level at which only Indian mills making high added value products like export grade yarns and fine fabrics can afford to import.

The price of the benchmark grade Bangladeshi Tossa D has risen to $580 a tonne from $265 a year ago.

According to Mr Shankar Ladia, spokesman for the Indian Jute Balers Association, "the current season's crop in Bangladesh will be less than 4m bales against 5.17m bales in 1994-95". He said the mills there needed about 3.3m bales, while another 400,000 bales were consumed in the villages. "Bangladesh generally exports 1.5m bales of jute a year. But this season, the raw jute export is going to be much less."

Mr Wadhwa confirmed that a group of Indian mills made an attempt to import fibre from the other jute-growing countries. "But it has drawn a blank," he said. "China has a marginal export surplus. The kenaf [a jute substitute] crop in Thailand is small enough, forcing it to import fibre from Bangladesh. Unlike last year we did not meet with any luck in Vietnam. Maybe, we will get some jute from Burma. Pakistan, which has jute mills but which does not grow jute, is an aggressive buyer this season."

The raw jute crisis in India is already so deep that all six mills in the government sector and some private mills have started working six days a week instead of seven to "conserve whatever fibre they can for the future," according to an Indian Jute Mills Association official. "There are at least 30 out of 68 operating mills which have jute stocks of less than four weeks requirement. Only seven units have been able to build stocks for about ten weeks consumption. As the weak mills are facing a severe cash flow problem, the traders are insisting upon payment in cash."

A consensus was developing in the industry that to avoid a haphazard closure of mills at the end current season and in the first two months of 1996-97 the jute commissioner should invoke his powers under the Jute Licensing and Control Order to regulate production of jute goods and also fix a ceiling on raw jute stock holding by the mills, said the IJMA official.

Trade union leaders maintain, however, that the government should first launch a massive dishoarding operation.

Indian raw jute is commanding record prices and according to Mr Ladia "the prices are likely to go up even further in the coming weeks".

"Much will depend," he said, "on whether West Bengal and Assam, the country's two most important jute growing states, will receive rain in March to enable the growers to go for early sowing. The March rain will have a sobering impact on the fibre prices."

In the meantime, the Indian Jute Advisory Board has concluded that the current season's crop will not be more than 7.8m bales, to which must to be added opening stock of 900,000 bales and imports of 100,000 bales. The jute mills will need 8m bales and consumption by the paper mills and villagers will be at least 600,000 bales. Next season, therefore, will open with negligible stocks of 200,000 bales.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1623-24	1655-56
Previous	1604-05	1636-37
High/low	1611.5/1610	1656/1639
AM Official	1611-11.5	1642-43
Kerb close		1655-6
Open int.	213,424	
Total daily turnover	45,806	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1370-80	1410-15
Previous	1355-65	1397-400
High/low		1410/1405
AM Official	1368-70	1400-405
Kerb close		1410-15
Open int.	5,476	
Total daily turnover	877	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	912-14	811-11.5
Previous	924-25	828-9
High/low	933/900	[illegible]
AM Official	900-2	807-8
Kerb close		810-11
Open int.	40,735	
Total daily turnover	13,932	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8240-50	8345-48
Previous	8120-30	8220-30
High/low		8350/8280
AM Official	8080-90	8285-90
Kerb close		8340-45
Open int.	40,505	
Total daily turnover	11,706	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6370-80	6400-405
Previous	6245-55	6285-90
High/low		6390/6280
AM Official	6310-20	6340-50
Kerb close		6380-90
Open int.	18,587	
Total daily turnover	10,771	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1070.5-71.5	1094-95
Previous	1066.5-67.5	1090-91
High/low		1097/1088
AM Official	1072-73	1096-96.5
Kerb close		1092-93
Open int.	69,946	
Total daily turnover	13,286	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2542-44	2535-36
Previous	2544.5-46.5	2537-38
High/low	2535	2542/2526
AM Official	2536-38	2533-34
Kerb close		2533-34
Open int.	174,182	
Total daily turnover	50,594	

■ LME AM Official £/$ rate: 1.5375
LME Closing £/$ rate: 1.5365

Spot: 1.5380 3 mths: 1.5358 6 mths: 1.5338 9 mths: 1.5318

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	117.90	+0.20	118.50	116.70	578	2,374
Apr	117.60	+0.05	117.60	116.70	222	2,739
May	117.10	+0.25	117.50	115.80	6,763	20,393
Jun	115.85	+0.35	115.85	115.30	11	865
Jul	115.00	+0.50	115.30	114.00	287	4,952
Sep	113.50	+0.80	113.50	112.50	2	2,655
Total					7,942	42,791

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	394.80-395.20		
Opening	394.50-394.90		
Morning fix	394.70	258.732	469.811
Afternoon fix	394.90	256.812	471.116
Day's High	395.00-395.40		
Day's Low	394.40-394.80		
Previous close	395.20-395.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.20	6 months	3.91
2 months	4.09	12 months	3.78
3 months	3.99		

Silver Fix	p/troy oz.	US cts equiv.
Spot	357.75	550.25
3 months	362.00	555.95
6 months	366.35	561.55
1 year	375.90	574.95

Gold Coins	$ price	£ equiv.
Krugerrand	394-397	256-258
Maple Leaf	405.70-408.25	
New Sovereign	92-95	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	396.0	+0.6	-	-	4	-
Apr	398.5	+0.5	398.6	395.1	14,305	65,084
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) — [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) — [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) — [illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel) — [illegible]

■ CRUDE OIL IPE ($/barrel) — [illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.) — [illegible]

■ GAS OIL IPE ($/tonne) — [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) — [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.) — [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	119.20	+0.85	119.20	119.20	10	45
May	120.90	+0.50	121.45	119.90	167	3,371
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel) — [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) — [illegible]

■ BARLEY LCE (£ per tonne) — [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) — [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) — [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) — [illegible]

■ POTATOES LCE (£/tonne) — [illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point) — [illegible]

FUTURES DATA
All futures data supplied by CMS.

Malt and Seeds
[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	873	-7	-	-	-	30
May	892	-7	905	891	1,947	24,622
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes) — [illegible]

■ COCOA (ICCO) (SDR's/tonne) — [illegible]

■ COFFEE LCE ($/tonne) — [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) — [illegible]

■ COFFEE (ICO) (US cents/pound) — [illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs) — [illegible]

■ WHITE SUGAR LCE ($/tonne) — [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) — [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) — [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) — [illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100) — [illegible]

■ CRB Futures (Base: 1967=100) — [illegible]

■ GSCI Spot (Base: 1970=100) — [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	64.525	-0.35	65.000	64.500	5,936	26,150
Jun	63.900	-0.375	64.300	63.800	3,615	29,434
Aug	63.075	-0.05	63.200	62.875	1,230	15,229
Oct	63.925	-0.025	63.950	63.700	378	10,846
Dec	62.825	+0.15	62.875	62.450	296	6,003
Feb	62.850	+0.225	62.850	62.550	60	3,211
Total					11,839	91,119

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	49.625	-0.05	49.700	49.050	2,573	11,132
Jun	53.775	-0.1	54.000	53.400	2,662	14,443
Jul	51.925	+0.2	52.000	51.550	929	3,471
Aug	49.175	+0.1	49.325	49.000	642	4,451
Oct	45.650	+0.075	45.650	45.400	183	2,972
Dec	46.700	+0.2	46.800	46.450	167	1,601
Total					7,171	38,089

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	68.900	-	69.000	67.400	73	337
May	67.750	+0.125	68.250	66.950	2,259	6,701
Jul	64.825	+0.275	65.150	64.050	452	2,486
Aug	61.250	+0.475	61.500	60.750	46	774
Feb	61.375	+0.425	61.550	61.150	13	110
Mar	60.800	-0.2	-	60.800	2	8
Total					2,847	10,416

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	172	-	8	-
1600	96	134	27	46
1700	41	81	73	92
■ COPPER (Grade A) LME	**Jun**	**Sep**	**Jun**	**Sep**
2400	167	147	19	59
2500	95	94	48	103
2600	45	56	96	162
■ COFFEE LCE	**May**	**Jul**	**May**	**Jul**
1850	103	157	47	117
1900	75	133	69	145
1950	54	114	98	174
■ COCOA LCE	**May**	**Jul**	**May**	**Jul**
875	26	59	11	22
900	14	46	22	[illegible]
925	7	33	40	[illegible]
■ BRENT CRUDE IPE	**May**	**Jun**	**May**	**Jun**
1850	104	-	[illegible]	-
1900	72	47	70	-
1950	50	47	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$16.82-6.87x	-0.145
Brent Blend (dated)	$20.39-0.45	+0.03
Brent Blend (May)	$18.81-8.83	-0.025
W.T.I.	$20.82-0.83x	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$201-203	
Gas Oil	$198-200	+9
Heavy Fuel Oil	$104-105	+1
Naphtha	$173-175	+2
Jet fuel	$224-226	+7
Diesel	$198-200	+6

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHERS

Gold (per troy oz)♣	$395.00	-0.25
Silver (per troy oz)♣	559.50c	+0.50
Platinum (per troy oz.)	$411.25	
Palladium (per troy oz.)	$138.75	-0.75
Copper	124.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.80r	+0.30
Tin (New York)	300.5	+8.0
Cattle (live weight)†	118.12p	+1.83*
Sheep (live weight)†♠	155.91p	+17.18*
Pigs (live weight)†	107.05p	+0.58*
Lon. day sugar (raw)	$328.5	-2.2
Lon. day sugar (wte)	$408.5	-4.0
Barley (Eng. feed)	113.25	
Maize (US No3 Yellow)	[illegible]	
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	104.00p	-0.50
Rubber (May)♥	103.25p	-0.50
Rubber (KL RSS No1)	388.00m	+1.50
Coconut Oil (Phil)§	$727.5v	+7.5
Palm Oil (Malay.)§	$525.0y	+7.5
Copra (Phil)§	457.0	
Soyabeans (US)	204.0v	-3.0
Cotton Outlook'A' index	83.45	-0.25
Wooltops (64s Super)	440p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x May. v Apr/May. y Apr/Jun. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week. †Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,024 Set by DANTE

ACROSS
1 Marksman taking flight (6)
4 In the event it's severe punishment (4,4)
9 Organised raid in back-street exposed Chinese criminals (6)
10 Anna is to transpose music (8)
12 PM taking vessel from Spanish isle (8)
13 Menace that surrounds a soldier (6)
15 Excursion and dance (4)
16 Stupid attendant in lift (4,6)
19 Disengagement of military unit (10)
20 "The Church" incomplete as address for a priest (4)
23 Is against using Latin (6)
25 Vessels upset by Socrates (8)
27 A fetching breed of dog (8)
28 May be in leaf at last (6)
29 Non-stop walker (8)
30 Give the call-sign (6)

DOWN
1 A shot at test (7)
2 Establishment fleecing its customers (4-5)
3 Last though almost sure to finish on top (6)
5 One to scrutinise a good figure (4)
6 Repeatedly try to express approval (4,4)
7 Join number one, getting equal first (5)
8 Render first aid (7)
11 Cleaners with free space (7)
14 Forsake careless freedom (7)
17 Discussion going overboard? (5-4)
18 A copper-lined box produced with precision (8)
19 Work in the dark to get negative results (7)
21 Orders are sent from Asia (7)
22 Have ambitions for a high place in the church (6)
24 Puzzle concerning public transport (5)
26 Patient biblical character takes in a headstrong one (4)

Solution 9,023

TRAPPIST STACKS / ONTHESLY IMPART / SHERIDAN PRIMER / MILESTONES / MARVELLOUS / SEDGES MARATHON / ARNOLD AIRBORNE / YIELDS KNITTERS

Weak US sales data prompt sharp advance

By Richard Lapper in London and Lisa Bransten in New York

Government bond markets performed strongly yesterday with weak US retail sales data triggering price rises in both the US and European markets. Although bigger investors, many of whom hold long positions, were again on the sidelines, European markets shrugged off early worries sparked by higher-than-expected money supply figures in Germany. "This was an amazing bounce back," said Mr Andrew Roberts, gilts analyst at UBS in London. "The figures in the US were excellent news for bonds. It is as if the market has come out of a coma."

■ US Treasury prices were higher in early trading yesterday as the weak retail sales figures eased fears that the economy was posting a rapid rebound from the weakness seen late last year.

Near midday, the benchmark 30-year Treasury was $\frac{21}{32}$ stronger at $91\frac{7}{16}$ to yield 6.658 per cent, while at the short end of the maturity spectrum, the two-year note was $\frac{1}{32}$ stronger at $98\frac{5}{8}$, yielding 5.727 per cent.

Gains on the market led to a steepening in early trading of the curve between two-year notes and the long bond, by 6 basis points to 93 basis points.

Retail sales gained 0.8 per cent last month to rebound from January's 0.1 per cent decline. Sales were stronger than the main index suggests, however, because the January figures were revised upwards from the originally reported figure showing a decline of 0.3 per cent.

Nevertheless, the sales weakness gave hope to some investors worried that the economy was heating up very quickly.

Ms Marilyn Schaja, money market economist at Donaldson Lufkin & Jenrette, said: "These data indicate that a moderate pick-up in consumer spending took place in February, but not the robust strength that had been feared following the strong anecdotal and survey reports for that month."

She does not expect the Federal Reserve to lower interest rates at next week's meeting of its Open Market Committee, but she does foresee lower short term interest rates by the end of the year.

■ German bonds fell sharply on news of higher-than-expected M3 figures, with the June bund future at Liffe dropping to a mid-morning low of 94.81. But later in the day the markets rebounded on the back of the US figures, with the June bund contract advancing to close at 95.80, up half a point. In the cash market yields fell across the curve, although four-year paper performed particularly strongly, with yields dropping by 11 basis points compared with a 6 basis point fall in the two-year sector and a 5 basis point fall in the 10-year area.

GOVERNMENT BONDS

The M3 figures showed an annualised rise of 16.6 per cent compared with an 8.4 per cent rise in January and market expectations of 7.6-9 per cent. The higher M3 figures rule out a cut in Germany's key interest rates later this month and could rule out a reduction until May, said analysts. "The headline figure complicates the Bundesbank's job of managing expectations in the bond market," said Mr Richard Reid, chief economist at SBG/UBS in Frankfurt. "The bank needs lower inflation data to be able to justify another cut in short term rates."

■ External factors were influential in the UK, with gilts first falling in line with the German market and then rising on the back of the bright opening in the US. On Liffe the June long gilt contract made steady progress during the afternoon, settling at 105¾, up more than half a point. Mr Roberts at UBS said that domestic economic data – a little lower than expected monetary growth in February and retail sales figures in line with market expectations – had helped gilts breach a key technical resistance level of 105¼. Weak numbers for retail price index, due today, will also help gilts advance, he predicts. "All the supports are there for the markets," he said.

■ The French market also took its cue from developments in the US and Germany. At Matif the June contract settled at 120.96, up 0.20, while June Pibor settled unchanged at 95.61. In the cash market OATs initially outperformed bunds, with the 10-year yield spread narrowing at one point in the day to 11 basis points, before closing 2 basis points wider at 17.

Traders in Paris reported that the tightness of the spread had prompted arbitrage, with dealers shorting OATs and buying bunds.

■ In Sweden, lower than expected retail sales in January indicated that inflationary pressures are abating, strengthening expectations for a further cut in interest rates later this week.

Mr David Brown, chief European economist at Bear Stearns, expects the country's yield curve to steepen further, predicting that the spread between two and 10-year bonds will widen from its current level of 148 basis points to 175 basis points over the coming weeks. He also suggests that Sweden will continue to outperform Germany, arguing that the 10-year yield spread over bunds could fall from its closing level of 221 basis points – down 5 points on the day – to 200 basis points "very soon".

■ Both the Italian and Spanish markets also enjoyed a good day. On Liffe BTP futures settled at 109.15, up nearly three quarters of a point, while in the cash market the 10-year yield spread over Germany narrowed by 5 basis points to 418.

Spanish bonds surged, helped by expectations that the Popular Party will be able to form a stable government. At Meff the June 10-year bono gained nearly a point, while the 10-year yield spread over Germany narrowed by 11 basis points to 339.

Republic of Argentina sets records with DM500m issue

By Samer Iskandar

In a volatile government market environment, primary activity was relatively modest, with only one high-profile deal.

The Republic of Argentina set two records – in coupon rate and maturity – with its latest 10-year, DM500m issue offering a spread of 475 basis points over bunds. Due to the long maturity – the longest existing D-Mark issue by a Latin American borrower was a seven-year maturity – placing the issue was risky.

But Deutsche Morgan Grenfell, the lead manager, enticed investors by setting the coupon at 11¼ per cent, "the highest existing coupon in D-Marks". Deutsche said the placement was successful, with about 25 per cent of the amount sold yesterday.

The bonds were trading at 98.90-99.00 in late afternoon in London, "a comfortable level for syndicate members whose cost is 98.07". The lead manager said it saw "strong demand from Swiss and Benelux banks", which traditionally filter the bonds through to retail investors.

LGT Finance made its debut in eurosterling yesterday with a £50m issue maturing in 2006 and paying an 8¾ per cent coupon. The lead manager, UBS Ltd, said the placement "went smoothly". Although the borrower is not rated and little known on the euromarket, the paper is guaranteed by the parent, LGT Bank in Liechtenstein, "considered equivalent to a solid double-A", according to UBS.

INTERNATIONAL BONDS

Iceland, whose last eurobond issue was more than a year ago – a 10-year Y15bn offering via Daiwa – is making a comeback. It is expected to tap the euromark sector today with a five-year floating-rate note for a total of DM250m.

The Federal National Mortgage Association (Fannie Mae), the second largest US borrower after the Treasury, is planning to tap a new non-dollar currency market this year by issuing global bonds. Fannie Mae, always on the look-out for new sources of funds, was the first US agency to issue global bonds, back in July 1994, and bonds denominated in D-Marks. However, it will only go ahead with the transaction if currency swap rates are attractive, because all its financing is systematically converted into US dollar liabilities.

Ms Linda Knight, Fannie Mae treasurer, insisted that the agency "only issues global bonds when [the all-in cost to the borrower] is cheaper than on the domestic US market".

In a move aimed at adjusting its capital structure to match the risk exposure on its assets, Barclays Bank has asked BZW to arrange a buy-back of three series of eurodollar perpetual notes, known as "Barclays Old", "Series 1" and "Series 2". Holders of the notes are invited to tender the paper before March 25. Up to $400m nominal will be bought back and cancelled, out of an outstanding total amount of around $1.5bn.

The Royal Bank of Scotland has chosen Lehman Brothers to lead manage a $125m issue of undated subordinated yankee bonds. The bonds will be callable after 10 years and every five years thereafter. This week RBS issued notes with a similar structure denominated in sterling.

The proceeds from both issues will qualify as tier-two capital for the bank.

Fund for south-east Asia investment launched

By Ted Bardacke in Phnom Penh

Frontier Fund Management has launched a South-east Asia Frontier Fund for regional investment in countries which many international investors find it difficult to access – Burma, Cambodia, Laos and Vietnam.

The fund, closed-end with a minimum size of $25m and maximum of $75m, will invest primarily in unlisted companies, joint ventures and greenfield projects with a medium-term potential for listing on a regional stock market, probably Thailand, which at the moment has the only legalised bourse in the region.

Other listing options include Australia, Singapore, Toronto and Nasdaq. The fund itself will be listed on the London Stock Exchange.

In particular, the fund will target investments in companies with operations in more than one country within the Mekong sub-region comprised of Burma, Cambodia, Laos, Thailand and Vietnam, along with the south-western Chinese province of Yunnan.

"Since there are no stock markets and the investment projects are primarily start-ups, diversifying risk across borders but in the same industry reduces some of the event and operating risks," said Mr Gene Davis, managing director of Frontier.

"This is one of the rare cases where investors can reduce the risk associated with a single country fund, for example Myanmar [Burma] and Vietnam, and also increase prospective returns." Mr Davis added.

The fund will concentrate on sectors that are usually first to take off in emerging economies: tourism, real estate, mining and natural resources, financial services, construction materials and infrastructure – mainly energy, transport and telecommunications.

One potential investment example is Northbridge Communities, which develops integrated expatriate communities which combine office, retail and residential space with international school facilities. The company already has one complex operating on Thailand's eastern seaboard and has additional projects under construction in Phnom Penh and Hanoi.

Additional sites in Ho Chi Minh City and Rangoon are under negotiation.

Frontier, which currently manages the $50m Vietnam Frontier Fund, is an affiliate of Bangkok-based Finansa Thai, a regional merchant banking company specialising in direct investment schemes in the Mekong subregion.

Lead manager for the placement of the fund is ABN Ambro HG Asia. Subscription closes on or about April 9.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
HCLT 1996-1(a)‡	698.4	(a1,a)	100.00	Mar 2006	-	-	Lehman Brothers
SBC Jersey(b)	200	6.00	99.85R	Mar 1999	0.1875R	-3.5(5⅞%-99)	SBC Warburg
UBS Finance(c)§	125	2.50#	100.00	Apr 2001	-	-	UBS
ANZ Banking Group‡	100	(b,d)	99.99R	Mar 1997	0.08R	-	Merrill Lynch International
Banco Hipotecario Nacional	75	10.625#	99.937R	Mar 1999	0.875R	+475(5¾-99)	Deutsche Morgan Grenfell
D-MARKS							
Republic of Argentina	500	11.25	99.47R	Apr 2006	1.375R	+475(6Feb06)	Deutsche Morgan Grenfell
Bank Austria	200	4.50	99.8582R	Apr 1999	0.1875R	+13(5¾%-99)	Westdeutsche Landesbank
SWISS FRANCS							
Asfinag	200	4.375	102.90	Apr 2004	2.625	-	Credit Suisse
STERLING							
LGT Finance(a)	50	8.75	99.24R	Dec 2006	0.375R	+59(7½%-06)	UBS
AUSTRALIAN DOLLARS							
GECC	100	8.00	100.77	Apr 1998	1.25	-	Hambros Bank
CANADIAN DOLLARS							
Kingdom of Sweden(a)	100	7.125	99.86R	Dec 2000	0.225R	+7(7½%-00)	ABN Amro Hoare Govett

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Household Consumer Loan Trust. Average life: 2.40 yrs. a1) 1-mth Libor +22bp. a2) Class B: $136.25m, average life 5.04 yrs, 1-mth Libor +60bp, par. a3) Subordinated class of $25.45m was privately placed. b) Long last coupon. c) Each $10,000 bond is exchangeable into 7.41 Novartis shares. Callable from 22/4/98 at par. d) 3-mth Libor -10bp. e) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.1260	-0.140	8.91	9.05	8.05
Austria		6.125	02/06	96.4700	+0.140	6.62	6.68	6.80
Belgium		7.000	05/06	101.1900	+0.440	6.83	7.34	6.58
Canada *		8.750	12/05	108.7900	+0.220	7.74	7.78	7.00
Denmark		8.000	03/06	102.7000	+0.580	7.60	7.72	7.32
France	BTAN	5.750	03/01	99.4200	+0.170	5.90	5.80	5.49
	OAT	7.250	04/06	104.2200	+0.320	6.66	6.71	6.62
Germany Bund		6.000	02/06	98.5700	+0.800	6.48	6.67	6.09
Ireland		8.000	08/06	100.0000	+0.450	7.99	8.10	7.47
Italy		9.500	02/06	94.4400	+0.580	10.41†	10.48	9.97
Japan	No 129	6.400	03/00	0.0000	-	0.00	1.83	1.85
	No 182	3.000	09/05	0.0000	-	0.00	3.23	2.59
Netherlands		6.000	01/06	96.2000	+0.470	6.53	6.56	6.15
Portugal		11.875	02/05	112.4000	+0.430	9.72	9.77	9.52
Spain		10.150	01/06	101.5200	+1.040	9.87	10.06	9.71
Sweden		6.000	02/05	83.7490	+0.642	8.70	9.04	8.77
UK Gilts		8.000	12/00	102-11	+7/32	7.39	7.46	6.90
		7.500	12/06	95-03	+17/32	8.05	8.13	7.60
		9.000	10/08	106-13	+20/32	8.17	8.25	7.78
US Treasury *		5.625	02/06	94-23	+11/32	6.35	6.35	5.63
		6.000	02/26	91-13	+11/32	6.67	6.67	6.12
ECU (French Govt)		7.500	04/05	101.7700	+0.410	7.22	7.31	6.95

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.20	Two year	5.74
Prime rate	8¼	Two month	5.21	Three year	5.88
Broker loan rate	7	Three month	5.17	Five year	6.06
Fed funds	5¼	Six month	5.23	10-year	6.35
Fed funds at intervention	.	One year	5.38	30-year	6.66

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	120.62	120.96	+0.20	120.98	120.28	0,492	139,102
Sep	119.42	119.74	+0.18	119.52	119.18	302	2,435
Dec	118.26	118.58	+0.18	118.26	118.02	230	633

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
119	-	-	-	0.03	0.32	0.60
120	1.05	-	1.78	0.12	0.52	0.87
121	0.35	0.86	1.16	0.43	0.93	1.26
122	0.04	0.40	0.69	0.10	1.47	-
123	-	0.14	0.36	-	-	-

Est. vol. total, Calls 17,437 Puts 15,063. Previous day's open int., Calls 194,827 Puts 172,137

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.20	95.80	+0.50	95.94	94.81	236040	227653
Sep	94.41	94.05	+0.50	94.41	94.20	19	4102

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
9550	0.40	0.93	1.21	1.26	0.10	0.63	0.91	1.80
9600	0.12	0.66	0.93	1.08	0.32	0.86	1.13	2.08
9650	0.04	0.44	0.70	0.83	0.74	1.14	1.40	2.38

Est. vol. total, Calls 32089 Puts 23072. Previous day's open int., Calls 311230 Puts 211696

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.49	109.15	+0.70	109.26	108.20	40043	52636
Sep	107.80	108.60	+0.70	107.80	107.80	7	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
10900	1.83	2.45	1.68	2.85
10950	1.56	2.23	1.91	3.13
11000	1.34	2.02	2.19	3.42

Est. vol. total, Calls 3329 Puts 1594. Previous day's open int., Calls 63788 Puts 46534

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	92.23	94.35	+0.99	94.69	93.21	67,838	40,402

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105-18	106-08	+0-21	106-08	105-12	1778	4609
Jun	104-22	105-10	+0-19	105-18	104-12	66073	113860

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
105	0-34	1-17	1-43	1-63	0-14	0-61	1-23	2-39
106	0-05	0-51	1-11	1-26	0-49	1-31	1-55	3-14
107	0-01	0-28	0-50	1-07	1-45	2-09	2-30	3-57

Est. vol. total, Calls 1767 Puts 2648. Previous day's open int., Calls 47116 Puts 33853

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	88.32	88.60	+0.32	88.74	88.08	1,045	8,443

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	111-16	112-13	+0-25	112-13	111-07	11,760	27,267
Jun	111-05	111-30	+0-28	111-30	110-22	324,525	350,297
Sep	110-18	111-13	+0-25	111-13	110-05	4,809	16,133

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.40	-	-	118.52	118.38	606	0
Sep	117.30	-	-	117.30	117.30	41	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Mar 20	Day's change %	Tue Mar 19	Accrued interest	xd adj. ytd		Low coupon yield Mar 20	Mar 19	Yr. ago	Medium coupon yield Mar 20	Mar 19	Yr. ago	High coupon yield Mar 20	Mar 19	Yr. ago
1 Up to 5 years (24)	121.77	+0.12	121.62	2.28	1.87	5 yrs	7.49	7.55	8.42	7.54	7.59	8.47	7.63	7.68	8.60
2 5-15 years (19)	145.73	+0.40	145.15	3.00	1.69	15 yrs	8.25	8.30	8.40	8.28	8.33	8.60	8.38	8.45	8.71
3 Over 15 years (9)	168.26	+0.66	167.22	1.61	3.48	20 yrs	8.33	8.37	8.37	8.35	8.39	8.60	8.43	8.50	8.64
4 Irredeemables (6)	182.96	+0.18	182.63	4.45	0.00	Irred.†	8.36	8.39	8.41						
5 All stocks (59)	140.98	+0.34	140.50	2.56	2.06										

Index-linked							Inflation 5% Mar 20	Mar 19	Yr. ago	Inflation 10% Mar 20	Mar 19	Yr. ago
6 Up to 5 years (1)	196.81	+0.10	196.62	3.54	0.00	Up to 5 yrs	2.98	3.02	3.54	1.78	1.81	2.29
7 Over 5 years (11)	183.81	+0.09	183.64	1.17	0.84	Over 5 yrs	3.80	3.80	3.86	3.81	3.82	3.89
8 All stocks (12)	183.98	+0.09	183.80	1.22	0.82							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 20	Mar 19	Mar 18	Mar 15	Mar 14	Yr ago	High*	Low*
Govt. Secs. (UK)	92.45	92.09	92.22	92.30	92.40	91.68	96.34	90.22
Fixed Interest	110.76	110.96	110.66	110.74	110.86	110.57	115.23	108.77

* for 1995/96. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Mar 19	Mar 18	Mar 15	Mar 14	Mar 13
Gilt Edged bargains	102.8	98.9	91.0	116.6	107.4
5-day average	103.8	126.2	132.8	148.2	143.4

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]						

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 20

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	98⅝	99	+⅛	6.74
Sweden 8 97	2500	103⅛	103¼	+⅛	4.01
United Kingdom 7¼ 97	5500	105	105		3.88
Abbey Natl Treasury 8 03 £	1000	98⅛	98⅜	+⅛	8.36
Alliance Leics 11⅞ 97 £	100	105	105¼		6.61
[illegible]					

CURRENCIES AND MONEY

MARKETS REPORT

Dollar remains confined to tight trading ranges

By Philip Gawith

The dollar yesterday remained confined within narrow trading ranges, despite the release of strong German M3 figures.

This continued the recent pattern, which has seen the dollar unmoved despite much stronger than expected Japanese GDP figures, and the exceptional US payrolls report.

The dollar closed in London at DM1.4775, from DM1.4762, and at Y106.57, from Y106.315.

In Europe the Swedish krona continued its recent run, closing at SKr4.485 against the D-Mark, from SKr4.518.

Sterling finished the day at DM2.27, from DM2.2619. It is now within sight of DM2.2741, the 1996 high. Against the dollar it finished at $1.5364, from $1.5325.

The Taiwan dollar continued its recovery as concern over Chinese military exercises waned. The currency closed at T$27.185 against the dollar from T$27.3145.

■ For all the dollar's problems in making a decisive upward break, there is no shortage of heavyweight pundits who number among its fans. One of these is Mr Mike Rosenberg, head of international bond and currency analysis at Merrill Lynch in New York.

"It is just a matter of time before the dollar takes off," he said, pointing out that interest rate spreads were running heavily in the dollar's favour. At the two year level, for example, spreads have widened in the dollar's favour from 90 basis points in mid-February to around 180 basis points now. Mr Rosenberg said he was "rather surprised how meek its response has been." Over that period the dollar has not risen by more than two pfennigs. It also comes against a backdrop of German unemployment running at 11.1 per cent, more than double the 5.5 per cent in the US, with the IFO business indicator in Germany still pointing downwards.

One factor which may be holding back the dollar is the fact that real interest rates favour the D-Mark. While nominal ten year bond yields are roughly the same in the two countries, inflation in German is 1.4 per cent, compared to 2.7 per cent in the US.

Another factor could be the position of the market - investors remain overweight the dollar, although Mr Rosenberg says there has been evidence in recent days of mutual funds selling dollars.

Mr Jim O'Neill, chief currency economist at Goldman Sachs in New York is another who is bullish about the dollar. Three years ago, assessing a range of variables – PPP, G7, current account, growth, interest rate expectations, short and long term real rates, fx reserve diversification, US portfolio outflows, budget deficits, market position and charts – he found ten of them to be negative for the dollar, and only one positive. This time round, he finds roughly seven of these factors to be dollar positive, with four negative (and only one of these strongly so).

Mr O'Neill cites the current account, relative growth prospects, interest rate expectations, real short rates and the chart position as being strongly dollar positive. He believes the current account position to be "probably the best in at least a decade".

■ Although the dollar remains largely range-bound against the D-Mark, Mr Rosenberg maintains that over the last six months it has been in a "gradual, but nevertheless clear uptrend."

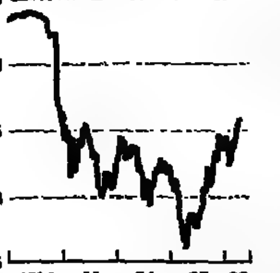
A related, but more clear trend is the weakness of the D-Mark, which is more evident against various European currencies than against the dollar. This can be seen in the recent strength of currencies like the French franc, Italian lira, Swedish krona and sterling. Mr Rosenberg said traders and investors appeared more confident to short the D-Mark against these currencies than against the dollar.

■ While the main currencies are convulsed by inactivity, some analysts believe the focus over the next 3-6 months could be with other dollar bloc currencies such as the New Zealand, Australian and Canadian dollars.

Mr Rosenberg is particularly enthusiastic about the Canadian dollar. He describes it as a "undervalued asset with great fundamentals". On a purchasing power parity basis, he says it is the most undervalued currency they track, while real long term rates are the highest in the developed world, bar Finland and Sweden. The current account balance is improving rapidly, and the same can be said for public finances.

Swedish Krona

Against the D-Mark (SKr per DM)



Source: FT Extel

■ Pound in New York

Mar 20	Latest	Prev. close
£ spot	1.5380	1.5340
1 mth	1.5373	1.5332
3 mth	1.5356	1.5316
1 yr	1.5287	1.5254

■ OTHER CURRENCIES

Mar 20	£	$
Czech Rp	41.8422 - 41.8783	27.2410 - 27.2510
Hungary	219.617 - 219.909	[illegible]
Iran	4610.40 - 4608.00	[illegible]
Kuwait	0.4530 - 0.4595	0.2988 - 0.2990
Poland	3.9521 - 3.9573	2.5730 - 2.5750
Russia	7443.46 - 7451.94	[illegible]
UAE	5.6407 - 5.6442	3.6723 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Mar 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng Index
Europe													
Austria	(Sch)	15.9842	+0.0575	558 - 726	15.9792	15.8853	15.9342	2.3	15.8517	2.8	-	-	105.9
Belgium	(BFr)	46.5528	+0.1796	176 - 880	46.6880	46.4100	46.5478	2.7	46.3378	2.7	45.4178	2.6	108.1
Denmark	(DKr)	8.7675	+0.0306	629 - 721	8.7739	8.7235	8.7559	1.6	8.7311	1.7	8.6245	1.6	108.7
Finland	(FM)	7.0537	-0.0162	469 - 605	7.0840	7.0230	7.0493	0.7	7.0412	0.7	-	-	83.5
France	(FFr)	7.7733	+0.04	695 - 770	7.7772	7.7196	7.7612	1.9	7.7379	1.8	7.6401	1.7	109.3
Germany	(DM)	2.2700	+0.0081	588 - 711	2.2725	2.2581	2.2652	2.6	2.2548	2.7	2.2104	2.6	110.0
Greece	(Dr)	370.534	+1.116	360 - 707	371.079	368.798	-	-	-	-	-	-	66.3
Ireland	(I£)	0.9726	+0.0019	717 - 734	0.9735	0.9703	0.9719	0.9	0.9704	0.9	0.9654	0.7	97.8
Italy	(L)	2393.37	+5.89	232 - 441	2396.18	2382.37	2401.62	-4.1	2416.72	-3.9	2489.42	-3.2	74.0
Luxembourg	(LFr)	46.5528	+0.1796	176 - 880	46.6880	46.4100	46.5478	2.7	46.3378	2.7	45.4178	2.6	108.1
Netherlands	(Fl)	2.5410	+0.0095	399 - 420	2.5444	2.5281	2.5351	2.8	2.5228	2.9	2.4711	2.8	108.2
Norway	(NKr)	9.8548	+0.0221	562 - 725	9.8733	9.8210	9.8556	1.1	9.8365	1.1	9.7408	1.3	98.5
Portugal	(Es)	234.624	+0.795	470 - 777	234.800	233.537	235.049	-2.2	235.954	-2.3	-	-	95.3
Spain	(Pta)	190.867	+0.715	771 - 963	190.987	190.030	191.302	-2.7	192.122	-2.6	194.967	-2.1	81.9
Sweden	(SKr)	10.1811	-0.0418	708 - 914	10.2695	10.0953	10.1823	-0.1	10.184	-0.1	10.1862	-0.1	88.1
Switzerland	(SFr)	1.8344	+0.0093	332 - 356	1.8361	1.8243	1.8262	4.1	1.815	4.2	1.7599	4.1	114.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.0
Ecu	-	1.2252	+0.0046	244 - 260	1.2260	1.2190	1.2239	1.3	1.2209	1.4	1.2076	1.4	-
SDR†	-	1.04756	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5362	+0.0042	357 - 366	1.5378	1.5325	-	-	-	-	-	-	-
Brazil	(R$)	1.5194	+0.0072	188 - 199	1.5201	1.5120	-	-	-	-	-	-	-
Canada	(C$)	2.0893	+0.0082	880 - 902	2.0909	2.0833	2.0896	0.4	2.085	0.8	2.0769	0.6	84.5
Mexico	(New Peso)	11.5568	+0.0442	384 - 752	11.5754	11.5244	-	-	-	-	-	-	-
USA	($)	1.5364	+0.0041	360 - 368	1.5380	1.5325	1.5357	0.5	1.534	0.6	1.5276	0.6	95.7
Pacific/Middle East/Africa													
Australia	(A$)	1.9813	+0.0028	801 - 825	1.9838	1.9779	1.9839	-1.5	1.9889	-1.5	2.0141	-1.7	90.7
Hong Kong	(HK$)	11.8784	+0.0318	745 - 822	11.8916	11.8497	11.8703	0.8	11.8557	0.7	11.8389	0.3	-
India	(Rs)	54.1582	+0.2995	600 - 564	54.5610	53.7460	-	-	-	-	-	-	-
Israel	(Shk)	4.7542	+0.021	505 - 578	4.7587	4.7327	-	-	-	-	-	-	-
Japan	(Y)	163.734	+0.833	645 - 823	163.970	162.610	162.974	5.6	161.419	5.7	155.044	5.3	138.2
Malaysia	(M$)	3.9102	+0.0136	084 - 119	3.9127	3.8988	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2396	-0.0063	381 - 409	2.2507	2.2272	2.2445	-2.7	2.254	-2.6	2.2878	-2.2	107.2
Philippines	(Peso)	40.2307	+0.124	818 - 796	40.2800	40.1868	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7620	+0.0153	602 - 638	5.7681	5.7478	-	-	-	-	-	-	-
Singapore	(S$)	2.1694	+0.013	681 - 707	2.1707	2.1575	-	-	-	-	-	-	-
South Africa	(R)	6.0365	+0.017	326 - 404	6.0424	6.0181	-	-	-	-	-	-	-
South Korea	(Won)	1201.77	+3.93	131 - 224	1202.67	1199.03	-	-	-	-	-	-	-
Taiwan	(T$)	41.7671	-0.0656	408 - 933	41.9209	41.6646	-	-	-	-	-	-	-
Thailand	(Bt)	38.8018	+0.1124	840 - 196	38.8270	38.6990	-	-	-	-	-	-	-

† Rates for Mar 19. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.3907	-0.0094	879 - 934	10.3950	10.3550	10.3734	2.0	10.3372	2.1	10.1757	2.1	105.7
Belgium	(BFr)	30.3650	+0.035	500 - 800	30.3800	30.2590	30.312	2.1	30.2055	2.1	29.725	2.1	107.7
Denmark	(DKr)	5.7065	+0.0045	050 - 080	5.7091	5.6866	5.7015	1.1	5.6915	1.1	5.714	-0.1	108.1
Finland	(FM)	4.5911	-0.023	878 - 943	4.6178	4.5753	4.5848	1.7	4.5726	1.6	4.5271	1.4	82.3
France	(FFr)	5.0594	+0.0124	583 - 605	5.0615	5.0320	5.0538	1.3	5.0441	1.2	5.0019	1.1	109.1
Germany	(DM)	1.4775	+0.0013	771 - 778	1.4784	1.4722	1.475	2.0	1.4692	2.1	1.4468	2.1	109.4
Greece	(Dr)	241.170	+0.075	120 - 220	241.950	240.330	242.945	-8.3	246.195	-8.3	260.17	-7.9	65.8
Ireland	(I£)	1.5798	+0.0013	788 - 808	1.5842	1.5785	1.5803	-0.3	1.5806	-0.2	1.57	0.6	-
Italy	(L)	1557.78	-0.37	750 - 805	1560.81	1553.50	1563.83	-4.7	1575.35	-4.5	1616.28	-3.8	73.5
Luxembourg	(LFr)	30.3650	+0.035	500 - 800	30.3800	30.2590	30.312	2.1	30.2055	2.1	29.725	2.1	107.7
Netherlands	(Fl)	1.6539	-0.0018	536 - 541	1.6552	1.6478	1.6508	2.2	1.6445	2.3	1.6174	2.2	107.6
Norway	(NKr)	6.4206	-0.003	168 - 243	6.4321	6.4000	6.4177	0.6	6.4121	0.5	6.3756	0.7	97.8
Portugal	(Es)	152.710	+0.105	650 - 770	152.780	152.270	153.025	-2.5	153.615	-2.4	155.78	-2.0	95.4
Spain	(Pta)	124.230	+0.13	200 - 260	124.270	123.880	124.57	-3.3	125.24	-3.3	127.61	-2.7	81.5
Sweden	(SKr)	6.6266	-0.0452	216 - 316	6.6930	6.5775	6.6376	-2.0	6.6551	-1.7	6.6871	-1.1	87.7
Switzerland	(SFr)	1.1940	+0.0029	935 - 944	1.1948	1.1894	1.1905	3.6	1.1832	3.6	1.152	3.5	113.9
UK	(£)	1.5364	+0.0041	360 - 368	1.5380	1.5325	1.5357	0.5	1.534	0.6	1.5276	0.6	83.2
Ecu	-	1.2540	-0.0014	535 - 545	1.2584	1.2534	1.2548	-0.7	1.2564	-0.8	1.2652	-0.9	-
SDR†	-	0.68445	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9889	+0.002	888 - 890	0.9890	0.9872	-	-	-	-	-	-	-
Canada	(C$)	1.3599	+0.0004	596 - 601	1.3602	1.3589	1.3598	0.1	1.36	0.0	1.3628	-0.2	83.7
Mexico	(New Peso)	7.5220	+0.0085	120 - 320	7.5320	7.5120	7.5245	-0.4	7.5274	-0.3	7.5323	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	90.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2895	-0.0017	892 - 900	1.2906	1.2889	1.2915	-1.9	1.295	-1.7	1.3137	-1.9	91.7
Hong Kong	(HK$)	7.7313	-0.0002	308 - 318	7.7324	7.7315	7.732	-0.1	7.7338	-0.1	7.7608	-0.4	-
India	(Rs)	35.2500	+0.1	000 - 000	35.5200	35.0000	35.4	-5.1	35.705	-5.2	37.175	-5.5	-
Israel	(Shk)	3.0944	+0.0053	928 - 959	3.0968	3.0789	-	-	-	-	-	-	-
Japan	(Y)	106.570	+0.255	540 - 600	106.670	106.090	106.125	5.0	105.225	5.0	101.485	4.8	137.1
Malaysia	(M$)	2.5450	+0.002	445 - 455	2.5460	2.5420	2.5459	-0.4	2.552	-1.1	2.5755	-1.2	-
New Zealand	(NZ$)	1.4575	-0.0081	571 - 582	1.4634	1.4533	1.4606	-2.5	1.4664	-2.4	1.491	-2.3	-
Philippines	(Peso)	26.1850	+0.01	600 - 100	26.2100	26.1600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-0.0002	501 - 505	3.7505	3.7500	3.7508	-0.1	3.7515	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4120	+0.0047	115 - 125	1.4125	1.4072	1.4084	3.0	1.4024	2.7	1.377	2.5	-
South Africa	(R)	3.9290	+0.0005	275 - 305	3.9325	3.9265	3.9577	-8.8	4.0092	-8.2	4.2325	-7.7	-
South Korea	(Won)	782.200	+0.45	100 - 300	782.500	781.700	785.2	-4.6	788.7	-3.3	807.2	-3.2	-
Taiwan	(T$)	27.1850	-0.1295	750 - 950	27.2650	27.1740	27.205	-0.9	27.245	-0.9	-	-	-
Thailand	(Bt)	25.2550	+0.005	500 - 600	25.2700	25.2400	25.3537	-4.7	25.5575	-4.8	26.44	-4.7	-

† SDR rate per $ for Mar 19. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 19: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

March 20	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	3½	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
France	4	[illegible]	[illegible]	[illegible]	[illegible]	3.80	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.80	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.96
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.87
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ S LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.98	5.15	5.26	5.52	-	-	-
week ago	-	4.98	5.16	5.24	5.47	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	5⅛ - 5	[illegible]	[illegible]	[illegible]
US Dollar	5¼ - 5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.62	95.61	-	95.63	95.57	27,194	49,204
Sep	95.50	95.50	+0.01	95.51	95.44	9,553	48,364
Dec	95.33	95.35	+0.01	95.35	95.27	4,231	25,447

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.71	96.72	+0.01	96.73	96.68	38341	237789
Sep	96.51	96.57	-0.05	96.58	96.42	49625	232412
Dec	96.20	96.27	+0.06	96.30	96.12	66665	175860
Mar	95.82	95.92	+0.09	95.95	95.75	25448	116152

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	90.72	90.76	+0.04	90.77	90.65	11326	40369
Sep	91.00	91.07	+0.08	91.08	90.98	5895	18593
Dec	91.00	91.09	+0.06	91.10	91.00	2776	16275
Mar	90.92	90.98	+0.06	90.98	90.89	502	8585

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.18	98.18	-0.01	98.22	98.15	5816	29783
Sep	97.95	98.03	+0.02	98.04	97.95	1452	13627
Dec	97.70	97.74	+0.02	97.75	97.66	858	9823
Mar	97.37	97.43	+0.02	97.44	97.37	327	760

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.41	95.41	+0.01	95.45	95.38	1187	8848
Sep	95.29	95.32	-	95.35	95.24	1019	3537
Dec	95.00	95.08	+0.03	95.09	95.00	207	3223
Mar	94.74	94.81	+0.04	94.82	94.73	77	1857

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9075	0.35	0.71	0.82	0.34	0.39	0.48
9100	0.23	0.56	0.67	0.47	0.48	0.58
9125	0.15	0.41	0.53	0.64	0.59	0.69

Est. vol. total, Calls 275 Puts 75. Previous day's open int., Calls 14990 Puts 8662

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.80	16.66	4.868	2.086	5130	5.447	21.15	502.9	409.2	21.82	3.931	2.144	4.478	3.293	350.9	2.626
Denmark	(DKr)	53.20	10	8.865	2.589	1.110	2729	2.898	11.25	267.6	217.7	11.61	2.092	1.141	2.383	1.752	186.7	1.397
France	(FFr)	60.02	11.28	10	2.920	1.252	3079	3.269	12.69	301.8	245.6	13.10	2.359	1.287	2.688	1.976	210.6	1.576
Germany	(DM)	20.55	3.863	3.424	1	0.429	1054	1.119	4.346	103.3	84.10	4.485	0.808	0.441	0.920	0.677	72.11	0.540
Ireland	(I£)	47.94	9.011	7.989	2.333	1	2459	2.612	10.14	241.1	196.2	10.46	1.885	1.028	2.147	1.579	168.2	1.259
Italy	(L)	1.949	0.366	0.325	0.095	0.041	100.	0.106	0.412	9.804	7.977	0.425	0.077	0.042	0.087	0.064	6.841	0.051
Netherlands	(Fl)	18.36	3.451	3.059	0.893	0.383	941.6	1	3.882	92.33	75.12	4.006	0.722	0.394	0.822	0.604	64.42	0.482
Norway	(NKr)	47.29	8.888	7.879	2.301	0.986	2426	2.576	10	237.8	193.5	10.32	1.859	1.014	2.118	1.557	165.9	1.242
Portugal	(Es)	19.88	3.737	3.313	0.968	0.415	1020	1.083	4.205	100.	81.37	4.339	0.782	0.426	0.890	0.655	69.78	0.522
Spain	(Pta)	24.44	4.593	4.072	1.189	0.510	1254	1.331	5.168	122.9	100.	5.333	0.961	0.524	1.094	0.805	85.76	0.642
Sweden	(SKr)	45.83	8.613	7.635	2.230	0.956	2351	2.496	9.691	230.5	187.5	10	1.802	0.982	2.052	1.509	160.8	1.203
Switzerland	(SFr)	25.44	4.781	4.238	1.238	0.531	1305	1.386	5.379	127.9	104.1	5.551	1	0.545	1.139	0.838	89.26	0.668
UK	(£)	46.65	8.768	7.773	2.270	0.973	2393	2.541	9.866	234.6	190.9	10.18	1.834	1	2.089	1.536	163.7	1.225
Canada	(C$)	22.33	4.197	3.721	1.087	0.466	1146	1.216	4.722	112.3	91.38	4.873	0.878	0.479	1	0.735	78.36	0.586
US	($)	30.37	5.708	5.061	1.478	0.633	1558	1.654	6.423	152.7	124.3	6.628	1.194	0.651	1.360	1	106.6	0.798
Japan	(Y)	28.50	5.355	4.748	1.387	0.594	1462	1.552	6.026	143.3	116.6	6.219	1.120	0.611	1.276	0.938	100.	0.748
Ecu		38.08	7.156	6.345	1.853	0.794	1953	2.074	8.053	191.5	155.8	8.310	1.497	0.816	1.705	1.254	133.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6821	0.6815	-0.0002	0.6825	0.6807	15,346	53,601
Sep	-	0.6850	-0.0004	-	-	48	2,066
Dec	-	0.6889	-0.0002	-	0.6889	16	189

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8478	0.8464	-0.0012	0.8480	0.8457	8,934	26,344
Sep	-	0.8530	-0.0014	-	0.8534	4	484
Dec	-	0.8627	-	-	-	5	502

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9536	0.9513	-0.0015	0.9541	0.9510	12,233	56,835
Sep	0.9633	0.9624	-0.0021	0.9633	0.9624	34	1,120
Dec	-	0.9765	-	-	-	200	820

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5312	1.5348	+0.0036	1.5358	1.5310	6,613	34,321
Sep	1.5310	1.5310	+0.0018	1.5350	1.5310	2	56
Dec	-	1.5320	+0.0048	1.5320	-	3	32

UK INTEREST RATES

LONDON MONEY RATES

Mar 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Mar 15, 5.7888pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 29, 1996. Agreed rate for period Mar 26, 1996 to Apr 25, 1996, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.238pc. Finance House Base Rate 6.5pc from March 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.87	93.88	+0.01	93.90	93.87	13302	51157
Jun	93.92	93.95	+0.02	93.96	93.88	28197	75887
Sep	93.69	93.75	+0.04	93.77	93.65	18370	57472
Dec	93.37	93.43	+0.04	93.44	93.30	13773	49401
Mar	92.95	93.03	+0.04	93.03	92.89	3042	33147

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9375	0.13	0.27	0.30	0	0.07	0.30
9400	0	0.11	0.17	0.12	0.16	0.42
9425	0	0.03	0.10	0.37	0.33	0.60

Est. vol. total, Calls 1261 Puts 4603. Previous day's open int., Calls 160125 Puts 169543

EMS EUROPEAN CURRENCY UNIT RATES

Mar 20	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.346	+0.001	-1.94	4.42	13
Netherlands	2.15214	2.12135	+0.0003	-1.43	3.89	11
Belgium	39.3960	38.9398	-0.0127	-1.16	3.60	8
Austria	13.4383	13.3278	-0.0006	-0.82	3.25	5
Germany	1.91007	1.89525	-0.00003	-0.78	3.20	8
Portugal	195.792	195.888	-0.094	0.05	2.35	-0
Denmark	7.28580	7.31880	-0.00236	0.45	1.94	-3
France	6.40608	6.48332	+0.00479	1.21	1.18	-10
Ireland	0.792214	0.8112333	-0.0012757	2.40	0.00	-18
NON ERM MEMBERS						
Greece	292.867	309.423	-0.135	5.65	-3.06	-
Italy	2106.15	2000.20	+1.45	-5.03	7.82	-
UK	0.786652	0.835894	-0.00137	6.26	-3.63	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.500	3.18	3.48	3.95	0.11	0.39	0.95
1.510	2.35	2.72	3.28	0.24	0.64	1.28
1.520	1.58	2.11	2.67	0.39	0.98	1.65
1.530	0.96	1.54	2.19	0.78	1.41	2.12
1.540	0.52	1.09	1.73	1.32	1.96	2.62
1.550	0.23	0.74	1.34	2.04	2.55	3.23

Previous day's vol., Calls 3,621 Puts 4,241 . Prev. day's open int., Calls 143,401 Puts 140,742

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.52	94.58	+0.08	94.60	94.49	60,481	434,144
Sep	94.33	94.47	+0.14	94.47	94.29	74,791	330,382
Dec	94.10	94.25	+0.16	94.26	94.03	85,986	310,057

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.00	95.00	-	95.00	95.00	356	2,505
Jun	94.99	95.06	+0.07	95.06	94.98	905	9,050
Sep	94.87	94.92	+0.11	94.92	94.87	424	3,090

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
9650	0.23	0.25	0.26	0.26	0.01	0.03	0.05	0.19
9675	0.06	0.08	0.10	0.14	0.09	0.11	0.13	0.32
9700	0.01	0.02	0.03	0.06	0.29	0.30	0.31	0.49

Est. vol. total, Calls 16180 Puts 10822. Previous day's open int., Calls 302754 Puts 266656

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9800	0.26	0.28	0.21	0.08	0.25	0.47
9825	0.10	0.14	0.12	0.17	0.36	0.63
9850	0.04	0.06	0.05	0.38	0.53	0.81

Est. vol. total, Calls 0 Puts 30. Previous day's open int., Calls 5085 Puts 3048

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.25	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	• Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
• In administration

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDR'S) IN NIPPON SHINPAN & CO., LTD

NOTICE IS HEREBY GIVEN that a cash dividend will be paid to shareholders of record date March 31, 1996. Furthermore, it has been declared that the shares will be traded ex-dividend on the Japanese Stock Exchanges with effect from March 26, 1996.
Subject to approval of the dividend, a further notice will be published, after receipt of the dividend by the Depositary, stating the amount and actual date of payment of such dividend together with the procedure to be followed for obtaining payment.
Coupon No. 38 will be used for collection of this dividend.

CITIBANK, N.A., London.
March 21, 1996 Depositary

SGA SOCIETE GENERALE ACCEPTANCE N.V.
FRF 1.000.000.000 REVERSE FLOATING RATE NOTES DUE DECEMBER 17, 1997
ISIN CODE : XS0035906721

For the period March 20, 1996 to June 19, 1996 the new rate has been fixed at 19,5625 % P.A.
Next payment date : June 19, 1996
Coupon nr : 13
Amount : FRF 4944,97 for the denomination of FRF 100 000
Amount : FRF 49449,65 for the denomination of FRF 1 000 000

The Principal Paying Agent
SOCIETE GENERALE BANK & TRUST - LUXEMBOURG

SOCIETE GENERALE
FRF 500,000,000 Subordinated Floating Rate Notes due 2001
ISIN CODE : XS0032069822

For the period March 20, 1996 to June 19, 1996 the new rate has been fixed at 4,375 % P.A.
Next payment date : June 19, 1996
Coupon nr : 21
Amount : FRF 221,18 for the denomination of FRF 20 000

The Principal Paying Agent
SOCIETE GENERALE BANK & TRUST - LUXEMBOURG

BANQUE NATIONALE DE PARIS

Programme for the Issuance of Debt Instruments
Series No 37 Tranche 1
YEN 1,000,000,000
AUD Currency Linked Euro Yen Notes
due September 2005

Notice is hereby given that the rate of interest for the period from 21 March 1996 to 21 September 1996 has been fixed at 5.188389 per cent per annum. The coupon amount due for this period is YEN 2,594,195 per denomination of YEN 100,000,000 and is payable on the interest payment date 24 September 1996.

The Fiscal Agent
BNP (Luxembourg) S.A.

Advance Bank Australia Limited

US$250,000,000
Floating Rate Notes 1999

The notes will bear interest at 5.7875% per annum for the interest period from 21 March 1996 to 21 June 1996. Interest payable value 21 June 1996 will amount to US$147.90 per US$10,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

CITICORP
US $250,000,000
Floating Rate Notes Due September 2000

Notice is hereby given that the Rate of Interest for the interest period March 21, 1996 to June 21, 1996 has been fixed at 5.5875% and that the interest payable on the relevant Interest Payment Date June 21, 1996 against Coupon No. 4 will be US$71.40 in respect of US$5,000 nominal of the Notes, and US$1,427.92 in respect of US$100,000 of the notes.

March 21, 1996
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

CHEMICALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRICITY

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INSURANCE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INVESTMENT TRUSTS

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(b)(v) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
e Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الأصل

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Mid 250 outpaces the leaders and hits new peak

By Steve Thompson, UK Stock Market Editor

Hopes that London's stock market would take a strong run at 3,700 on the FT-SE 100 scale were dashed by a combination of factors yesterday, with share prices of the UK's top stocks looking vulnerable throughout the session.

Second liners, on the other hand, maintained their outperformance against the market leaders, with the FT-SE Mid 250 index hitting a new all-time high.

A disappointing overnight showing by Wall Street, German money supply figures every bit as bad as the pessimists had warned, and a steep fall on Wall Street at the start of trading yesterday kept UK shares on the down slope.

The performance was made to look all the more pedestrian after the gilts market staged a rapid and determined rally to close almost a full point ahead on the day, after falling around a quarter of a point during early trading.

There were no really big shocks from the day's company news items contributing to the poor performance; on the contrary, there were a number of extremely bullish results, especially from the second-line stocks.

Telecoms stocks, admittedly, were among the FT-SE 100's poorest performers, with Vodafone and BT down 3 per cent and 2 per cent respectively and heading the downside list after the latest consultative document from Oftel, the telecoms industry watchdog. Dealers said the report contained nothing too damaging, but that the market was always liable to take a dim view of *any move to limit profits growth at* one of the UK's biggest companies.

At the close of the session the FT-SE 100 index displayed a 7.6 decline at 3,685.4. Undermining confidence in the top stocks, traders said, was evidence that several large lines of stock were being offered around, including a block of 5m Royal Bank of Scotland shares.

The big winners behind the FT-SE Mid 250's move to a new peak included Weir Group, the engineering company, Dorling Kindersley, the publishing group, Wassall, the conglomerate, and Hammerson, the property group.

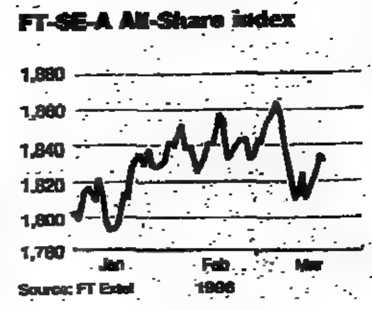
Wall Street's disappointing close overnight – the Dow Jones Industrial *Average settled 14 points down* on balance after crossing the 5,700 level at one point – and worries about the day's scheduled economic data saw the FT-SE 100 open some seven points lower. At its worst, minutes after the opening, the index was down almost 20 points.

But the good corporate results, plus encouraging domestic economic details, on retail sales and M4 money supply for February, triggered a modest uptick which drove the FT-SE 100 into positive ground in the early afternoon and helped to sustain the FT-SE Mid 250.

The weak start by Wall Street, which fell more than 40 points shortly after the opening, came in the wake of a profits warning from computer group Digital Equipment.

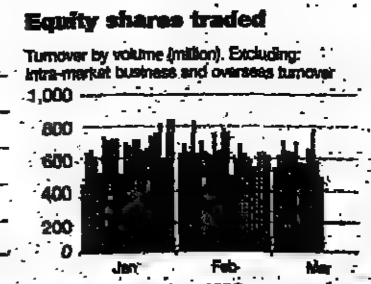
Turnover of 703.1m shares was described as disappointing by traders, with non-FT-SE 100 stocks accounting for 55 per cent of the total. Customer business on Tuesday, boosted by the big switch operation out of gilts and into equities, was a hefty £2.2bn.

FT-SE-A All-Share index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3685.4	-7.6		FT Ordinary index	2756.4	-2.6
FT-SE Mid 250	4262.2	+8.0		FT-SE-A Non Fins p/e	16.80	16.80
FT-SE-A 350	1854	-2.2		FT-SE100 Fut Jun	3685.0	-3.0
FT-SE-A All-Share	1833.48	-1.90		10 yr Gilt yield	8.05	8.12
FT-SE-A All-Share yield	3.83	3.83		Long gilt/equity yld ratio:	2.20	2.22

Best performing sectors

1 Banks: Merchant .... +1.0
2 Electricity .... +0.9
3 Household Goods .... +0.8
4 Alcoholic Beverages .... +0.8
5 Engineering: Vehicles .... +0.8

Worst performing sectors

1 Telecommunications .... -1.2
2 Oil: Integrated .... -1.1
3 Mineral Extraction .... -0.8
4 Gas Distribution .... -0.8
5 Banks: Retail .... -0.6

ICI tops US buy list

Growing US pressure to shift *away from defensive stocks* and into cyclicals was reflected by the diverging prices of ICI and leading pharmaceuticals.

ICI improved 14 to 942p, while Zeneca slipped 19 to 1343p as one US brokerage was said to have failed to place all *of a line of 3m shares.*

Zeneca has been seen as a prime target for Roche, of Switzerland. *Yesterday, Roche's* pharmaceuticals division director Mr Franz Humer said the company would make further acquisitions but only if they tied in with current strategy.

In a newspaper interview, Mr Humer said Roche's objective was to win worldwide pharmaceutical market share of between 3.5 and 5 per cent over the next five to eight years, but added: "With the new products in our pipeline, we are absolutely in the position to achieve this on our own strength."

Telecoms hit

The latest consultative document on pricing from telecoms regulator Oftel cast a cloud over the sector, with BT, most cables groups and Vodafone all moving lower.

Vodafone was hit hardest, although Oftel referred fairly obliquely to the mobile phone industry and had no immediate intention of bringing mobiles into its price net. Vodafone closed 7½ off at 244½p in 17m traded, the day's worst performing Footsie stock.

BT retreated 7¼ to 344½p. Most brokers are convinced that Oftel is determined to lower BT's earnings profile. NatWest Securities, which stood by its hold stance on the shares, has grave doubts about *Oftel's pricing proposals on* BT's operating cashflow.

One analyst with a leading broker said: "The regulatory pressure is intact. BT needs a way out. It may do a deal with Cable and Wireless or possibly move towards a break-up."

Cable and Wireless, underpinned by takeover speculation and the fact that UK unit Mer*cury accounts for just 20 per* cent of total profits, stood out against the sell-off, adding 8 at 491p.

Allied/Bass hints

Spirits group **Allied Domecq** was one of the day's talking points following a press report suggesting that Bass is negotiating to buy Allied's 50 per cent stake in Carlsberg-Tetley, the brewing joint venture with Carlsberg.

Neither company would be *drawn on the reports and both* said they did not comment on market rumours. The market was nevertheless cheered by the talk and shares in Allied moved ahead 6 to end at 497p after trade of 4.7m. Bass also gained 6 to close at 749p, with US investment bank Goldman Sachs said to be recommending the shares.

One cautious market watcher said: "This talk is in fact not new and both Bass and Whitbread are said to have shown an interest in making such a purchase, though I doubt an announcement is round the corner. Today's share price rise is simply because of the press report." Shares in Whitbread receded 9 to 693p.

In the rest of the drinks sector, Guinness, which reports figures today, was one of the *day's strongest performers in* the FT-SE 100 index. The stock brushed aside recent worries about the figures and bounced 9 to 472p. Volume was 2.5m shares.

Vague stake building talk was heard in **Young & Co's Brewery**. The "A" shares put on 27 at 513p.

Banks were broadly weaker *as a soggy market gave an* opportunity for profit-taking. However, National Westminster added 4 at 638p on expectation that acquisition of Clerical Medical, the mutual life assurer, is imminent.

Elsewhere, Royal Bank of Scotland slipped 8 to 537p, with pressure from a line of 5m shares that one broker was said to be hawking around the market.

However, dealers said takeover speculation was bubbling around the stock again and some expected the shares to bounce once the big block of *shares was sold.*

HSBC and Standard Chartered fell 15 to 990p and 10 to 602p respectively following a slide in the Hong Kong market.

Oil major BP came back from its Olympian heights as *Morgan Stanley*, the US brokerage, decided that it had gone too far too fast.

Morgan still likes the stock *but has lowered its recommen*dation to "outperform" from "strong buy". The move brought to a brief halt a rise that had taken the share price to a record closing peak and caused it to outperform the FT-SE All-Share index by 15 per cent over the past four months.

Yesterday, the shares shrugged off a firmer crude oil price to slip 9¼ to 565p, while Shell Transport lost 4 at 857p.

Tobacco and insurance conglomerate **BAT Industries** showed tentative signs of recovery following the US *inspired pounding over the* past few days.

The shares had tumbled more than 10 per cent since Liggett, the US tobacco group which makes Chesterfield cigarettes, stated that it was offering an out of court settlement to the anti-tobacco lobby.

Since the Liggett move started to leak into the market *a week ago, nearly 3 per cent* of the BAT equity has changed hands. Yesterday the stock hit a low of 481p after a near $5 fall by Philip Morris on Tuesday. However, BAT shares rallied to close the day a penny up at 488p.

But views on the stock remain polarised. NatWest Securities issued a sell note yesterday, advising clients to take profits ahead of forecast steep declines in earnings over the next two years.

Elsewhere, engineering ana*lysts were quick to upgrade* profits estimates at Weir Group following strong interim figures. The shares powered ahead by almost 10 per cent to top the FT-SE Mid 250 performance charts, closing 23 higher at a new peak of 258p.

A combination of improved retail sales figures and what was said to be a bit of a market squeeze gave airports group BAA a clear push. The shares, up 9 at 538p, jumped to fourth place in the Footsie rankings.

Wassall, buoyed by bumper *results, moved ahead strongly* in spite of a move by rival conglomerate Hanson to sell its stake in the group.

Wassall topped the FT-SE Mid 250 performance charts with a rise of 10 to 287p in 10m turnover. ABN Amro Hoare Govett handled the Hanson disposal of 4.3m shares. These changed hands at 276p and 277p.

SBC Warburg upgraded its Wassall profits estimates for the current year by 5 per cent to £63m. But the broker downgraded at Harrisons & Crosfield, cutting back by £4m to £128m for this year. H&C was cautious about building supplies trading, and the shares closed 4 off at 167p.

Yorkshire Electricity sparked up 11 to 814p with help *from a buy recommendation* published by Yamaichi.

Dorling Kindersley, which rose sharply on well received *figures on Tuesday, jumped a further 29 to 545p after the* company announced a co-operation agreement with Intel Corporation.

On Demand, a USM-quoted Internet-related stock, forged ahead 21 to 218p on news of a joint product launch with Netscape, the sector's US star performer.

MARKET REPORTERS: Peter John, Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Mar 20	Mar 19	Mar 18	Mar 15	Mar 14	Yr ago	*High	*Low
Ordinary Share	2756.4	2759.0	2743.6	2731.4	2756.2	2394.0	2807.9	2238.3
Ord. div. yield	3.94	3.94	3.96	3.97	3.92	4.42	4.73	3.78
P/E ratio net	16.32	16.31	16.49	16.43	16.51	15.63	21.38	15.35
P/E ratio nil	16.00	16.00	16.17	16.11	16.29	16.22	22.21	15.17

Ordinary Share index since compilation: high 2799.2 18/01/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2755.9	2751.3	2749.7	2755.7	2756.0	2754.0	2758.5	2763.4	2759.5	2763.7	2746.1

	Mar 20	Mar 19	Mar 18	Mar 15	Mar 14	Yr ago
SEAQ bargains	36,190	41,025	37,132	36,136	35,635	32,125
Equity turnover (£m)†	-	2211.0	[illegible]	[illegible]	[illegible]	[illegible]
Equity bargains†	-	43,592	42,070	39,338	42,182	45,565
Shares traded (mil)†	-	731.8	478.5	595.2	778.4	553.2

†Excluding intra-market business and overseas turnover.

	Mar 20	Mar 19	Mar 18	Mar 15	Mar 14	Yr ago	High	Low
FT-SE AIM	976.10	977.30	974.90	967.81	966.33	-	1064.62	965.68

*For 1995/96.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	576	Total Highs	131	Total contracts	21,802
Total Falls	630	Total Lows	28	Calls	8,940
Same	1,570			Puts	12,862

Mar.20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3675.0	3685.0	-3.0	3705.0	3671.0	11140	61425
Sep	-	3701.0	-3.0	-	-	0	2340

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	4278.0	+8.0	-	-	0	3405

FT-SE 100 INDEX OPTION (LIFFE) (*3686) £10 per full index point

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
-	F.P.	51.6	527	496	BZW Eq (Brmdl)
-	F.P.	1.58	2	2	†Capital & Wstrn
-	F.P.	0.07	5½	3	Clubhaus Wts
12	F.P.	59.0	16½	14	†Freepages
-	F.P.	31.8	143	108	†IOC Intl
100	P.P.	22.8	35	25	Life Offices
-	F.P.	67.3	24½	20	M & G Equity Cap
-	F.P.	5.17	92	86	M & G Equity Div
-	F.P.	65.6	45	42	M & G Equity Inc
145	F.P.	110.7	189	145	Macdonald Hotels
100	F.P.	16.6	105	103	†Prmry Hlth Props
-	F.P.	24.2	98	97	Saracen Value C
-	F.P.	204.4	285½	241	Schroder UK G Uts
120	F.P.	38.6	141	123	Stadium Group
180	F.P.	108.5	186	175	Streamline
195	F.P.	106.7	232	218	Visual Action

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Mar 19	% chg on day	Mar 18	Year ago
Gold Mines Index (35)	2237.35	+0.3	2230.17	1667.31
Regional Indices				
Africa (18)	3060.68	-0.6	3077.73	2698.25
Australasia (5)	2595.45	+0.8	2574.37	2176.99
North America (12)	1950.47	+0.7	1937.56	1569.94

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FT-SE Actuaries Share Indices — The UK Series

FT-SE Actuaries All-Share

Hourly movements

FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

Major Stocks Yesterday

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 20 / Sch)

BELGIUM/LUXEMBOURG (Mar 20 / Frs.)

CZECH REP (Mar 20 / Korona)

DENMARK (Mar 20 / Kr)

FINLAND (Mar 20 / Mks)

FRANCE (Mar 20 / Frs.)

GERMANY (Mar 20 / Dm.)

GREECE (Mar 20 / Drachma)

ITALY (Mar 20 / Lira)

NETHERLANDS (Mar 20 / Fls.)

NORWAY (Mar 20 / Kroner)

POLAND (Mar 20 / Zloty)

PORTUGAL (Mar 20 / Escudo)

SPAIN (Mar 20 / Pts.)

SWEDEN (Mar 20 / Kronor)

SWITZERLAND (Mar 20 / Frs.)

TURKEY (Mar 20 / Tk Lira)

PACIFIC

JAPAN (Mar 19 / Yen)

HONG KONG (Mar 20 / H.K.$)

INDONESIA (Mar 20 / Rupiah)

MALAYSIA (Mar 20 / MYR)

NEW ZEALAND (Mar 20 / NZ $)

SINGAPORE (Mar 20 / S$)

AUSTRALIA (Mar 20 / Aus$)

SOUTH KOREA (Mar 20 / Won)

TAIWAN (Mar 20 / TW $)

THAILAND (Mar 20 / Baht)

AFRICA

SOUTH AFRICA (Mar 20 / Rand)

NORTH AMERICA

CANADA

TORONTO (Mar 20 / Can $)

4 pm close

MONTREAL (Mar 20 / Can $)

4 pm close

INDICES

US INDICES

Dow Jones	Mar 19	Mar 18	Mar 15	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5669.51	5683.60	5584.97	5683.60 (18/3/96)	3832.08 (30/1/95)	5683.60 (18/3/96)	41.22 (2/7/32)
Home Bonds	103.46	103.37	103.46	106.09 (14/2/96)	93.53 (3/1/95)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2215.21	2184.75	2139.29	2215.21 (19/3/96)	1473.19 (2/1/95)	2215.21 (19/3/96)	12.32 (8/7/32)
Utilities	213.95	215.69	211.82	234.00 (12/2/96)	183.03 (3/1/95)	256.45 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5755.86 (5706.00) Low 5618.66 (5573.41) (Theoretical‡)
Day's high 5709.97 (5683.60) Low 5652.53 (5585.70) (Actual‡)

Standard and Poors	Mar 19	Mar 18	Mar 15	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	651.69	652.65	641.43	661.45 (12/3/96)	459.11 (3/1/95)	661.45 [illegible]	4.40 (1/6/32)
Industrials¥	771.84	773.56	762.13	776.23 (22/2/96)	546.28 (3/1/95)	776.23 (22/2/96)	3.62 (21/6/32)
Financial	65.99	66.00	[illegible]	68.58 (5/3/96)	41.64 (3/1/95)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	346.55	348.76	343.39	351.70 (12/2/96)	250.73 (3/1/95)	351.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	564.57	564.78	561.51	570.31 (7/3/96)	433.12 (6/1/95)	570.31 (7/3/96)	29.31 (9/12/72)
NASDAQ Cmp	1112.50	1114.42	1099.59	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

■ RATIOS

	Mar 15	Mar 8	Mar 1	Year ago
Dow Jones Ind. Div. Yield	2.15	2.18	2.15	2.69
	Mar 13	Mar 6	Feb 28	Year ago
S & P Ind. Div. yield	1.85	1.87	1.89	2.36
S & P Ind. P/E ratio	21.01	21.05	20.83	17.52

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Philip Morris	14,251,400	86⅞	[illegible]
K-Mart	9,042,900	[illegible]	[illegible]
Micron Tech	5,600,800	33¾	-1⅛
Telefonos	4,885,500	32¼	+1⅛
Merck	4,559,300	62	[illegible]
RJR Nabisco	4,075,600	29¾	-1½
Wal-Mart	4,207,300	23⅞	[illegible]
Pac Telesis	3,864,000	26¾	-1⅛
Walt Disney	3,757,400	65	-2
Amer T & T	3,327,000	[illegible]	—

■ TRADING ACTIVITY

● Volume (million)

	Mar 19	Mar 18	Mar 15
New York SE	442.428	436.577	528.980
Amex	25.481	20.850	20.875
NASDAQ	533.694	510.052	528.589
NYSE			
Issues Traded	3,107	3,130	3,114
Rises	1,260	1,725	1,077
Falls	1,084	707	1,2457
Unchanged	763	698	790
New Highs	157	142	70
New Lows	17	18	27

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	657.30	659.40	+2.10	659.40	654.50	70,508	180,456
Sep	-	663.05	-	-	-	152	4,516

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	20570.0	20560.0	+170.0	20680.0	20530.0	27,985	256,462
Sep	20570.0	20690.0	+250.0	20700.0	20570.0	1,943	12,442

Open interest figures for previous day.

INDEX FUTURES

■ CAC-40 (200 x index)

■ DAX

■ OMX

■ SOFFEX

... 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ... day's highs and lows are the averages of the highest and lowest prices reached during the day by each ... day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached ... in brackets are previous day's). ¥ Subject to official recalculation.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1995. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, March 19, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Stl Corp	16.5m	343	+5
Mitsubishi Heavy	8.1m	870	+5
Shinko Electric	8.1m	821	-9
Kawasaki Hvy Ind	6.2m	523	+13
NKK Corp	6.2m	287	[illegible]
Sumitomo Mtl Ind	4.5m	313	+3
Keiyo Bank	3.7m	550	+15
Mitsumi Electric	3.5m	1580	-70
Pacific Metals	3.5m	727	-1
Mitsubishi Bank	3.5m	2270	

4 pm close March 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

هكذا من الأهل

4 pm close March 20

NYSE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
Continued from previous page										
62	35½	SchrPl	1.18	2.0	24	11091	59⅝	58	59¾	+1¾
80⅝	50⅛	Schlmb	1.50	1.9	28	4236	78½	77¼	77⅞	-⅛
28	11¼	Schwab(C)	0.16	0.6	26	2721	26⅛	25½	25⅞	-¼
28⅞	20⅞	SchwMaud				997	26½	26¼	26¼	-⅜
24⅞	11⅜	SciAtl	0.06	0.3	40	3038	19⅛	18⅞	18⅞	-⅞
20	15⅛	Scitex	0.10	0.6	11	35	17⅞	17⅝	17⅞	
43½	28⅞	Scripps	0.52	1.2	25	388	42⅞	42¾	42¾	
21½	13⅜	ScuddNAsF x	0.02	0.1		70	16¼	16⅛	16⅛	
11⅞	8⅝	ScuddrNEuF	0.16	1.4		210	11⅜	11⅝	11⅝	
20	13⅜	SeaCoB	0.70	4.1	1	2	17½	17⅛	17½	
16¼	14⅜	SeaCT.4625	1.48	9.4		8	15½	15½	15½	-⅛
67¾	23⅝	S'gate				1039619	57½	53½	54¾	-3¼
59½	25⅝	Seagrm x	0.60	1.8	22	5832	33	32⅝	32¾	-¼
22½	15¼	Seagull En			100	2206	20⅛	20	20⅛	+⅛
33¼	18	Sealed Air			25	1302	u33¼	32½	33¼	+¾
51¾	30⅞	SearsR	0.92	1.8	13	7858	u51⅞	51¼	51½	+½
22¼	16⅞	SecCapStrl	1.24	5.7	25	342	21⅞	21⅝	21⅞	+¼
13	10⅞	Seligm Sel x	0.84	6.9		13	12⅜	12¼	12¼	-⅛
38¼	13⅝	Sensormat	0.22	1.0	77	13025	22	21⅜	21⅝	-⅜
35⅝	21⅞	SequaA	0.60	1.8	58	41	33¾	33¼	33¾	-⅞
41⅝	23	SequaB	0.50	1.2	72	z100	41¼	41¼	41¼	
48¾	28¾	ServCp	0.48	1.0	26	4506	u49¼	47⅞	48	+⅞
33½	21½	SvMstr	0.98	3.1	14	306	31⅜	31⅛	31⅜	
7⅞	4⅛	SenMerch			10	1342	5⅞	5¾	5⅞	-⅛
57½	22½	SGSThm			8	2678	37½	36⅛	36¼	-1¼
17⅜	10⅝	Shaw Ind	0.30	2.5	25	2457	12⅛	11¾	12	+⅛
13⅝	7⅝	Shelby Wil	0.28	2.6	14	34	11	10¾	10¾	-⅛
83½	64¼	ShellTr	3.30	4.1	17	1531	80⅝	79⅝	79⅞	-⅝
45⅞	32	SherW	0.70	1.8	18	1687	43½	41⅝	43½	
13½	7⅞	Shoneys			14	798	8⅞	8½	8⅞	+⅛
28⅝	13½	Showboat x	0.10	0.4	29	335	25⅛	24⅝	24¾	-½
24⅝	18½	Sierra Pac	1.18	4.9	12	2223	24⅜	24¼	24¼	-⅛
8⅛	5¾	SignalApp			1	6	6⅞	6⅞	6⅞	

- V -

- W -

- T -

- U -

- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close March 20

NASDAQ NATIONAL MARKET

4 pm close March 20

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

AMERICA

Warning from Digital hits technology sector

Wall Street

A profits warning from Digital Equipment, the US computer group, sent technology shares sharply lower in midday trading, pulling other sectors down as well, *writes Lisa Bransten in New York.*

At 1 pm, the Nasdaq composite was off 11.74 at 1,100.76 and the Pacific Stock Exchange technology index, which contains shares traded on the Nasdaq and the New York Stock Exchange, slid 2.3 per cent.

The Dow Jones Industrial Average opened stronger but by 1 pm blue chip shares were off 35.41 at 5,634.10. The Standard & Poor's 500 fell 4.21 to 647.48, while the American Stock Exchange composite added 0.21 at 564.78. NYSE volume was 240m shares.

Before trading began, Digital warned that weak third quarter sales of personal computers would cause its quarterly earnings to be below analysts' expectations, although higher than earnings in the same period of last year. By midday the shares were off $10⅞ or 16 per cent to $56¼.

The bad news spilled over to a host of computer and technology companies. IBM shed $6⅝ to $114⅞, Hewlett-Packard lost $6⅝ at $94¾, Compaq fell $2⅛ to $37⅞, Dell Computers slid $1⅞ to $31¾ and Gateway 2000 lost $1¼ at $26.

The two biggest companies on the Nasdaq also suffered from the fears about weakness in the technology sector. Microsoft dipped $3 to $103⅞ and Intel $3½ to $55⅞.

Cyclical shares were also weaker, having led the market through much of its recent rebound.

Declining cyclical shares in the Dow included Du Pont, $1¼ cheaper at $83, Aluminum Company of America, $1⅞ down at $61½, and Caterpillar, off $1½ at $70⅞.

Tobacco shares recovered some ground after the beating they had taken since the Liggett Group decided to settle some of the suits pending against all of the major producers. Philip Morris improved $2⅞ to $89 and RJR Nabisco stood $¾ better at $30⅞.

Canada

Toronto turned back from a firm opening and the TSE 300 composite index was a net 4.75 down by noon at 4,963.70 in volume of 36.4m shares.

Analysts noted that oil and gas prices had continued to rise to levels unseen since the Gulf War on falling North American inventories, while metals were also the beneficiary of low inventories and high demand.

Biovail Corp International shares rose C$2¼ to C$39¼ but in quiet dealings.

Agra Industries class B shares moved ahead C$¼ to C$9¼ in brisk dealings after the company posted a 79 per cent rise in profits for the first half of fiscal 1996.

SOUTH AFRICA

Johannesburg ended slightly weaker after drifting quietly all day, with gold stocks slipping on a softer bullion price and industrials easing on a lack of fresh incentives ahead of today's public holiday.

Analysts noted that a large number of gold shares left over in the market after Friday's futures close-out also contributed to the weaker trend.

The overall index ended 12.2 lower at 6,633.6, industrials slipped 7.6 to 8,230.3 and golds declined 16.0 to 1,722.6.

EUROPE

Continental airline stocks gain height

Airlines had seen individual signs of activity this week, but Lufthansa, KLM and Swissair all gained height yesterday.

Lufthansa rose DM5.50 to DM234.40 for a two-day gain of DM8.40 ahead of today's 1995 preliminary results. It had to struggle with a strong D-Mark for most of last year, said Mr Guy Kekwick at Lehman Brothers, but it had indicated higher profits, nevertheless.

KLM, like Lufthansa, approached its 1995-96 high with a rise of Fl 2 to Fl 59. Analysts said that the rise was partly technical as the stock broke resistance at FL 57, and *partly due to renewed talk by* British Airways that it did not exclude European expansion.

Swissair, which meets financial analysts in Zurich today, climbed SFr38 to SFr1,229, extending this week's rise to 9.9 per cent as the new chief operating officer Mr Philippe Bruggisser and senior management decided on further steps under an existing restructuring plan to cut 1,200 jobs in various parts of the group.

Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich welcomed the management's readiness to take tough measures and, in addition, its newfound ability to communicate with staff, raising hopes *that change may be introduced* without the risk of significant industrial disruption.

FRANKFURT fielded a February M3 growth rate of 1.26 per cent; analysts said that the Bundesbank would hesitate now before cutting interest rates in the short term.

Nevertheless, the Dax index rose on the day, by 6.93 to an Ibis-indicated 2,491.73 following a lower than expected US retail sales rise of 0.8 per cent in February: Allianz and Deutsche Bank were instrumental in the Dax rise, closing DM30 and DM1.23 higher at DM2,760 and DM75.18 respectively.

Chemicals stayed out of the limelight. The metals and trading group Metallgesellschaft *stuck to its "ambitious" profits* target of DM300m for 1995/96 in spite of weakness in the German economy, and its shares rose 68 pfgs to DM32.48.

PARIS reflected earnings news, published or pending, as the CAC-40 index rose 2.59 to 1,969.79 in light turnover of FFr3.56bn. Canal Plus, the television programme operator, jumped FFr56 or 5.2 per cent to FFr1,126 on a 6 per cent rise in net profits, well ahead of expectations, as well as on a rise in dividend from FFr15 to FFr20 a share.

One of its major shareholders, Havas, rose FFr8.30 to FFr409.50 in sympathy, but another, Générale des Eaux, *fell FFr4.60 to FFr495.10 after it* said that a flotation of its mobile telecoms subsidiary, Société Francaise de Radiotéléphonie, was "not imminent".

Renault dropped FFr4.3 to FFr139.7 after Tuesday's 41 per cent plunge in 1995 group net profits. Elsewhere in the automotive sector, Michelin fell FFr3 to FFr231.50, Peugeot FFr11 to FFr776 and Valeo FFr4.30 to FFr261.50, the last mentioned after Lucas Industries said it was not interested in a 28 per cent stake in the components group.

Financials were mixed. Outside forecasts for Axa and Crédit Lyonnais left them up FFr3.30 at FFr304.30 and down FFr7 at FFr208.10 respectively, while UAP fell FFr3.80 to FFr105.20 following a large sell order and stop-loss trades.

AMSTERDAM was generally wary, but it found winners to join KLM as the Aex index eased 0.21 to 527.22.

Both the brewer Heineken and the food group Nutricia moved to all-time highs, gaining Fl 4.60 at Fl 338.50 and Fl 3.20 at Fl 1.60 respectively in the aftermath of Heineken's 1995 results. Meanwhile, a NIB outperform rating for Cap Volmac left the software group Fl 1.10 or 4.3 per cent higher at Fl 26.40.

STOCKHOLM turned back from the record highs registered on the previous two days as the strength of the crown hit major exporters.

Ironically, some analysts suggested that the overnight *surge in the currency* was largely due to foreign investors hedging their expected positions ahead of Investor's listing of Scania .

The Affärsvärlden General index *relinquished 7.2* at 1,919.8; Investor rose another SKr1 to SKr275.

ZURICH's attention remained focused on chemicals, with cyclicals mostly weaker, and the SMI index finished 6.0 higher at 3,611.1.

Sandoz registered put on SFr13 at SFr1,340 and Ciba registered rose SFr11 to SFr1,430. Roche certificates picked up another SFr30 to SFr9,680.

UBS bucked the mostly negative trend in financials, appreciating SFr21 to SFr1,332 in further rumour driven trade. One suggestion yesterday was that the bank wanted to build links to Merrill Lynch.

MILAN edged ahead after a turnround in the domestic bond market, triggered by the weaker than expected US February sales.

The Comit index eased 2.88 to 591.14 but the real-time Mibtel index picked up from a low of 9,393 to finish 4 higher at 9,461 as the market awaited preliminary inflation data from Trieste and Venice, due after the market closed.

SAI, the insurer, rose L886 to L15,871 on speculation that Generali, up L139 to L36,289, might be considering a bid. Elsewhere among insurers, INI advanced L40 to L2,174 as it said that it expected gross profits for 1995 to rise by around 50 per cent.

Telecom Italia gained L30 at L2,533 *after it announced a cut* in telephone charges for some international calls, to bring it more into line with other European markets.

Eni moved forward L50 to end at L5,953 after its Enichem chemicals division reported a return to profits in 1995.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

Mar 20 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1608.28	1608.35	1607.51	1606.49	1605.78	1605.74	1607.85	1608.30
FT-SE Eurotrack 200	1672.42	1674.82	1674.99	1674.97	1674.12	1674.78	1677.72	1677.90

	Mar 19	Mar 18	Mar 15	Mar 14	Mar 13
FT-SE Eurotrack 100	1603.65	1592.22	1583.14	1580.06	1576.49
FT-SE Eurotrack 200	1676.03	1661.06	1651.94	1653.04	1646.57

Base value 1000 (26/10/90); High/day: 100 - 1609.80; 200 - 1678.08 Low/day: 100 - 1604.54 200 - 1671.77. † Partial.

Buenos Aires tepid on tax cuts

Buenos Aires gave a lukewarm reception to a tax cutting package which the economy minister Mr Domingo Cavallo said would lower interest rates and help to pull the country out of recession. The Merval index at midsession was 3.06 points up at 500.04.

MEXICO CITY edged higher in early trade before profit-taking eroded some of Tuesday's 4.5 per cent advance which followed the first drop in interest rates for seven weeks. The IPC index was 15.30 below the previous day's close at 2,988.54.

SAO PAULO was weak in midday trade as investors awaited the outcome of a wrangle between the presidency and congress over the creation of an inquiry into the banking system. The Bovespa index had shed 554.92 to 47,960.

The government was concerned that a block in establishing the committee could wreak havoc upon its constitutional reform agenda.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Mar. 15 1996	% Change over week	% Change on Dec '95	Local currency terms: Mar. 15 1996	% Change over week	% Change on Dec '95
Latin America	(248)	481.09	+1.7	+2.0			
Argentina	(31)	786.78	+0.2	-1.8	482,857.92	+0.2	-1.8
Brazil	(68)	330.74	+2.2	+8.3	1,221.50	+2.5	+10.0
Chile	(43)	693.68	+0.1	-7.3	1,144.03	+0.2	-6.2
Colombia[1]	(15)	569.62	-2.9	-4.8	1,065.62	-2.5	+0.8
Mexico	(65)	470.19	+3.6	+3.8	1,532.71	+3.2	+1.8
Peru[2]	(21)	202.77	+0.4	+2.8	291.74	+0.2	+5.0
Venezuela[3]	(5)	334.57	-0.8	+0.1	4,216.64	+7.8	+81.5
Asia	(631)	240.12	-0.8	+7.3			
China[4]	(23)	60.58	-3.6	+12.0	83.70	-3.5	+12.1
South Korea[5]	(145)	121.32	-0.1	-3.7	124.49	+0.3	-3.1
Philippines	(35)	271.42	-2.9	+4.6	343.35	-2.8	+4.4
Taiwan, China[6]	(83)	108.57	-3.0	-3.7	111.93	-2.9	-3.1
India[7]	(76)	90.95	-1.8	+13.2	110.89	-0.8	+10.5
Indonesia[8]	(44)	119.84	+0.7	+9.3	152.06	+1.2	+11.6
Malaysia	(123)	303.95	-0.5	+12.1	265.03	-0.6	+12.2
Pakistan[9]	(25)	272.92	-4.3	+12.5	429.03	-4.1	+13.8
Sri Lanka[10]	(5)	128.98	+3.4	+23.9	151.08	+3.4	+26.0
Thailand	(72)	367.76	-3.3	-2.1	368.43	-3.2	-2.0
Euro/Mid East	(238)	161.67	+0.2	+7.0			
Greece	(47)	262.33	+0.7	+8.6	429.82	+0.5	+11.1
Hungary[11]	(8)	152.90	+3.3	+56.4	262.32	+3.4	+62.1
Jordan	(8)	161.84	+0.1	-1.6	271.45	+0.1	-1.5
Poland[12]	(22)	611.61	-4.7	+43.5	389.33	-4.8	+49.4
Portugal	(28)	124.41	+3.1	+7.5	130.70	+2.4	+10.0
South Africa[13]	(63)	257.34	+0.5	-0.3	208.85	+0.6	+7.5
Turkey[14]	(54)	154.32	-2.3	+47.7	4,985.46	-1.1	+66.8
Zimbabwe[15]	(5)	332.63	-0.4	+17.5	462.93	+0.1	+20.1
Composite	(1117)	290.70	+0.2	+6.4			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 2 1993; (15)July 2 1993.

Russian equities have had admirers for a long time, although foreign commitment to the market has seen a number of false dawns. Moreover, the market has been on the slide in recent weeks, falling by about 14 per cent since the start of the year in extremely low volume, writes Michael Morgan.

But now, *says Mr John-Paul Smith at Morgan Stanley,* while the Russian *jigsaw* is a long way from completion, the overall shape is at last becoming discernible. He believes that, at last, the risk-reward trade-off would seem to favour selective investment in Russian equities. Mr Smith identifies three factors inhibiting foreign investment in Russia. First, there is the risk of a Communist victory in June's general election, although, he says, most investors take a fairly sanguine view of this outcome. For the record, Mr Smith still believes that Mr Boris Yeltsin has a better than even chance of remaining president. Secondly, there is scepticism about whether arguments over ownership of companies, post privatisation, have been resolved. Mr Smith notes, however, that in the event of a Communist victory in the polls, any expropriations would be viewed in the harshest possible light by external investors and the IMF. The third worry is slow progress on the infrastructural front, but Mr Smith believes that settlement and custody are improving.

***He argues that the timing for exposure to Russian equities is beginning to "feel" right.* "All the psychological factors which would mark a bottom in any other market are starting to fall into place," he says. Unlike in the summer of 1994, nobody is piling into the market for liquidity or rotational reasons, in spite of the strong performance of all Russia-related fixed income instruments and of the neighbouring markets in Poland, up almost 50 per cent since the start of the year, and Hungary, some 60 per cent ahead.**

ASIA PACIFIC

Government backing lifts Taipei and Seoul

Government-backed support lifted equities in Taiwan and South Korea, and New Zealand, too, had a good day. Tokyo and Bombay were closed.

TAIPEI decided that political tensions with China were easing, and the weighted index rose 90.20 or 1.8 per cent to 5,040.52 in turnover of T$42bn.

The paper sector saw strong bargain hunting and soared by 3.8 per cent. Textiles rose 3.7 per cent and in construction, up 1.9 per cent as a sector, Taiwan Ever Fortune climbed by *T$2.10, or just under the* daily 7 per cent limit, to T$33.40 on buying from the stock market stabilisation fund.

SEOUL was led sharply higher by demand for *Samsung* Electronics and other blue chips as a more upbeat mood emerged on the view that the government was committed to supporting the market in the run-up to the *National Assembly* elections on April 11.

The composite index moved ahead 9.85 to 869.98.

Samsung Electronics hit its upper limit of Won96,900, up *Won5,400, after recent sharp* falls on worries over a decline in semiconductor prices. Ssangyong Securities said it regarded Won150,000 as a realistic trading price for the *stock,* while Tong Yang Securities valued it at Won182,000.

WELLINGTON went on a late buying spree which sent the NZSE-40 Capital index 28.0 or 1.8 per cent higher to 2,151.2, *with cash freed from the Brier*ley buy-in by an Asian consortium cited as one factor in the renewed demand.

Fletcher Energy was the day's star performer, advancing 24 cents to NZ$3.14. Telecom overcame an early decline to finish 5 cents up at NZ$6.63 while Carter Holt Harvey added 10 cents at NZ$3.20. News that CHH had achieved *its long term goal of a seat on* the board of Chile's Arauco was interpreted positively.

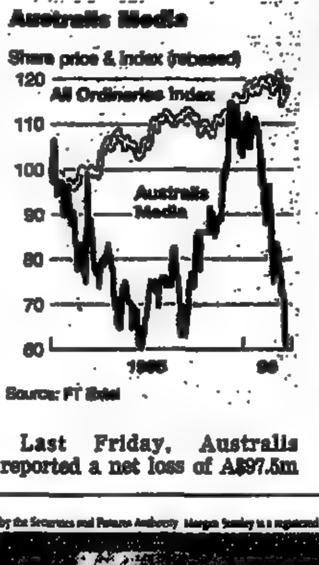
KUALA LUMPUR's blue chips found buyers in the second half of the day, but second liners still fell prey to profit-taking as the composite index gained 4.37 at 1,126.90 in volume of some 187m shares.

A dealer said the weekend Taiwanese presidential elections and Malaysia's Bank Negara report next week were keeping investors sidelined.

SYDNEY's All Ordinaries index shed 6.9 points to 2,249.4 in turnover of A$602.5m. The pay television operator Australis Media plunged by an intra-day 20 per cent on concerns over its continued funding by US partners.

Australis said later that it had secured short term funding support and the shares recovered a little to end 6 cents off at 60 cents, after 53 cents.

Australis Media



Source: FT Extel

Last Friday, Australis reported a net loss of A$97.5m for the six months ended December 31, and accumulated losses of A$239.65m at end-1995. The company started its satellite pay television operations in January of last year.

HONG KONG featured heavy buying of a recent major laggard in Hutchison, which topped the actives list and added HK$1.20 at HK$47, after HK$47.70, on talk that the flotation of Orange, its UK mobile phone unit, had been well received.

However, the Hang Seng index dipped 43.97 to 10,836.53 in a correction after Tuesday's 279-point jump. Turnover fell to HK$4.64bn from the previous day's adjusted HK$4.99bn.

Sun Hung Kai Properties lost 75 cents at HK$69.50. After the close it announced a 5 per cent rise in interim net profits.

JAKARTA fell following profit-taking in second-liners, and selling pressure in cigarette shares on reports that the government planned to raise excise duty on tobacco products from April 1. The JKSE composite index eased 1.37 to 585.98, with the cigarette heavyweights Sampoerna and Gudang Garam down Rp400 and Rp100 respectively at Rp24,500 and Rp28,100.

KARACHI weakened by a percentage point as the absence of funds and local institutions led speculators to sell short. The KSE 100 index retreated 16.57 to 1,582.11.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY MARCH 19 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MARCH 18 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (81)	200.10	1.0	193.60	134.47	153.57	171.85	0.9	3.99	198.08	191.73	133.73	151.61	170.25	202.74	158.78	163.45
Austria (24)	183.71	1.1	177.75	123.46	140.99	140.63	1.3	1.60	181.62	176.80	121.70	139.19	139.03	199.28	166.11	192.28
Belgium (32)	207.50	0.8	200.76	139.44	159.24	155.20	0.9	3.68	205.85	199.26	137.94	157.77	153.78	215.81	174.38	180.87
Brazil (28)	151.91	-0.6	146.98	102.09	116.58	275.96	-0.6	1.75	152.88	147.98	102.44	117.17	277.49	170.25	107.35	112.04
Canada (101)	156.98	0.2	151.88	105.50	120.48	154.54	0.1	2.43	156.73	151.71	105.02	120.12	154.38	158.71	129.95	129.95
Denmark (33)	291.30	-0.9	281.84	195.76	223.56	225.91	-0.8	1.80	293.92	284.51	196.96	225.26	227.74	305.17	252.41	262.79
Finland (24)	188.92	1.2	182.79	126.96	144.99	182.94	1.4	2.68	186.59	180.62	125.04	143.01	180.48	276.11	171.13	187.08
France (96)	187.42	0.0	181.34	125.05	143.84	148.38	0.0	3.11	187.39	181.39	125.57	143.62	148.39	191.17	167.70	169.22
Germany (60)	173.23	0.9	167.61	116.42	132.95	132.95	1.1	1.94	171.65	166.15	115.02	131.56	131.55	173.79	142.25	151.24
Hong Kong (59)	427.89	2.6	414.00	287.55	328.39	424.73	2.6	3.40	417.23	403.87	279.58	319.77	414.14	451.19	323.87	345.64
Ireland (16)	262.16	1.1	253.65	176.18	201.20	234.01	1.2	3.43	259.23	250.93	173.71	198.68	231.26	265.00	206.24	206.24
Italy (59)	73.92	0.8	71.52	49.67	56.73	86.01	0.6	1.84	73.32	70.97	49.13	56.20	85.49	82.71	65.45	65.45
Japan (482)	149.06	0.4	144.22	100.17	114.40	100.17	0.7	0.77	148.45	143.70	99.48	113.77	99.48	164.52	137.75	145.17
Malaysia (107)	539.72	0.5	522.20	362.71	414.21	526.60	0.7	1.64	536.96	519.77	359.82	411.54	526.17	581.96	425.77	477.31
Mexico (18)	1156.17	4.7	1118.63	776.98	887.31	9497.80	4.2	1.48	1104.48	1069.12	740.12	846.49	9119.69	1237.14	861.51	681.51
Netherland (19)	285.95	0.6	276.66	192.17	219.46	215.63	0.8	3.21	284.21	275.11	190.45	217.83	213.98	285.98	228.20	231.90
New Zealand (13)	81.45	0.0	78.81	54.74	62.51	63.39	-0.1	4.74	81.49	78.88	54.61	62.45	63.46	85.49	72.39	73.71
Norway (33)	241.02	0.2	233.20	161.97	184.97	210.14	0.2	2.36	240.63	232.93	161.25	184.43	209.74	243.79	205.19	210.77
Singapore (44)	439.10	2.1	424.84	295.09	336.99	284.77	2.1	1.42	430.10	416.33	288.21	329.64	278.81	465.21	350.19	356.12
South Africa (45)	385.66	-0.1	373.14	259.18	295.98	331.15	-0.3	3.15	386.11	373.74	258.73	295.92	332.04	437.76	329.21	340.12
Spain (37)	168.09	0.8	162.63	112.96	129.00	158.03	0.8	3.86	166.79	161.42	111.75	127.81	156.78	175.89	124.10	125.80
Sweden (46)	350.49	1.8	339.11	235.54	268.99	346.17	1.1	2.37	344.45	333.42	230.82	263.99	342.54	360.49	232.23	237.93
Switzerland (33)	247.41	0.5	239.38	166.27	189.07	182.70	0.7	1.58	246.12	238.24	164.93	188.63	181.42	247.41	176.18	178.38
Thailand (46)	176.49	0.5	170.76	118.60	135.45	172.98	0.5	1.90	175.64	170.01	117.70	134.61	172.09	193.95	134.02	134.02
United Kingdom (205)	229.34	0.7	221.90	154.12	176.01	221.90	0.6	4.21	227.82	220.53	152.66	174.61	220.53	235.50	198.11	198.11
USA (631)	266.05	-0.2	257.41	178.79	204.18	266.05	-0.2	2.16	266.53	257.99	178.60	204.27	266.55	269.11	202.35	202.51
Americas (778)	242.64	-0.1	234.76	163.06	186.21	203.91	-0.1	2.18	242.97	235.19	162.81	186.22	204.20	245.54	184.88	184.88
Europe (726)	205.33	0.7	198.63	138.66	158.35	176.25	0.7	3.09	205.00	198.43	137.37	157.11	177.11	206.93	172.79	173.31
Nordic (136)	297.48	1.1	287.62	199.92	228.30	256.68	0.7	2.32	294.34	284.91	197.24	225.58	254.93	297.48	222.22	230.31
Pacific Basin (832)	162.58	0.8	157.28	109.25	124.76	112.03	0.9	1.21	161.54	156.37	108.25	123.81	111.06	171.87	148.86	153.70
Euro-Pacific (1558)	180.70	0.6	174.63	121.43	138.68	137.11	0.8	2.10	179.55	173.80	120.32	137.61	136.07	183.39	156.92	161.78
North America (732)	259.31	-0.2	250.89	174.26	199.01	258.59	-0.2	2.19	259.74	251.43	174.06	199.07	259.03	262.26	197.96	198.01
Europe Ex. UK (521)	188.66	0.8	182.54	126.79	144.79	152.90	0.7	2.48	187.46	181.46	125.62	143.67	151.89	188.66	153.44	156.03
Pacific Ex. Japan (350)	286.75	1.5	277.44	192.70	220.07	249.63	1.8	3.01	282.40	273.36	189.24	216.44	245.82	293.56	233.75	237.11
World Ex. US (1750)	182.06	0.6	176.15	122.35	139.73	141.30	0.7	2.13	180.93	175.15	121.24	138.67	140.27	184.71	160.65	162.10
World Ex. UK (2176)	205.91	0.2	199.23	138.38	158.03	172.69	0.3	1.95	205.42	198.84	137.65	157.44	172.15	207.64	170.90	171.93
World Ex. Japan (1899)	240.42	0.2	232.61	161.57	184.51	226.41	0.2	2.55	239.84	232.16	160.72	183.82	225.87	242.17	191.14	191.35
The World Index (2381)	208.03	0.3	201.27	139.80	159.65	177.22	0.3	2.15	207.45	200.81	139.01	158.99	176.82	209.73	173.10	174.24

Latest prices were unavailable for this edition.

UK TELECOMMUNICATIONS MARKET

Production Editor: Philip Sanders

A turbulent 12 months

The issue dominating discussions across the UK industry and beyond is the regulation of BT's prices between 1997 and 2001. Alan Cane reports

Since the privatisation of British Telecommunications more than a decade ago, the telecoms sector in the UK has seen dramatic changes, catalysed by the emergence of more than 150 new competitors. The past 12 months, however, have been turbulent even for such a volatile industry.

BT and Mr Don Cruickshank, the industry watchdog, have clashed publicly and noisily over regulation. The mobile phone sector has grown massively and shown early signs of maturity: the flotation of Orange Communications seems likely to provide a new and lively member of the FTSE 100. And Cable and Wireless, the UK's oldest national telecoms company, looks vulnerable to sell-off or merger after an extraordinary boardroom row between its former chairman and chief executive. Talks with BT over a proposed "reverse takeover" are currently suspended.

Some developments have met with wholehearted approval throughout the industry. The much maligned Access Deficit Contributions (ADCs), a form of compensation to BT for maintaining a nationwide network (but in fact paid only by Mercury Communications) are being abolished as part of a package of regulatory changes which will give BT new price flexibility. The regulator has agreed to scrap controls on BT's line rental charges, allowing it to "re-balance" higher line rentals with lower call charges. A family of new charge packages is expected later in the year.

The government is expected to end the "international duopoly" which gave BT and Mercury the sole right to transmit international calls over their own networks. AT&T, Energis, Colt and MFS are among the competitors in the business market which are expected to seek international licences.

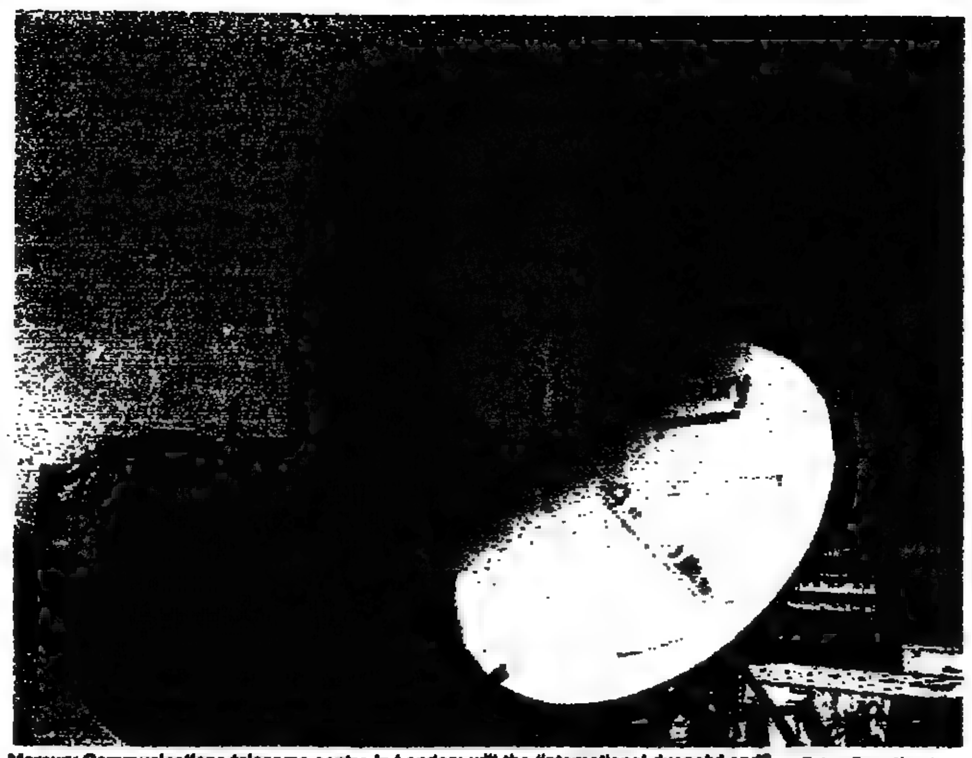
The issue dominating discussions across the UK industry and beyond, however, is the regulation of BT's prices in the five years between 1997 and 2001. There are widespread fears that the climate for investment in the UK could worsen if the regulator squeezes BT's profitability.

BT's prices are the benchmark for the rest of the industry. If BT has to struggle to make a reasonable return, its competitors will fare worse. AT&T, the largest US operator, is only one of a number of overseas operators holding fire on its investment in the UK until the pattern is clearer.

As the former monopolist, BT's charges for services where competition is not yet fully developed are regulated to protect customers, to prevent predatory pricing and to encourage efficiency.

A cap is applied to a basket of these services, determined by a formula set as the rate of inflation minus X – currently 7.5 percentage points. Where inflation is low, as at present, BT is obliged to return funds to its customers in the form of price cuts.

Mr Cruickshank, director-general of Oftel, is currently holding talks with the industry to decide the value of X and what services to include in the basket in the years after 1997. What has alarmed most of the industry is his apparent belief that BT is already too profitable. Some analysts believe he would like to see BT's profits in 2001 in the £1.75bn – £2.5bn range, compared with £2.9bn last year.



Mercury Communications telecoms centre in London: will the 'international duopoly' end? Picture: Trevor Humphries

Mr James Golob, telecoms analyst at Deutsche Morgan Grenfell, said in an influential research note earlier this year: "If BT is capped at a rate of return between 9.2 per cent and 13.4 per cent, then the rest of the UK telecoms industry will struggle to achieve a return in double figures.

"Such a low return can hardly be worth pursuing, given the risks and the required scale of investment."

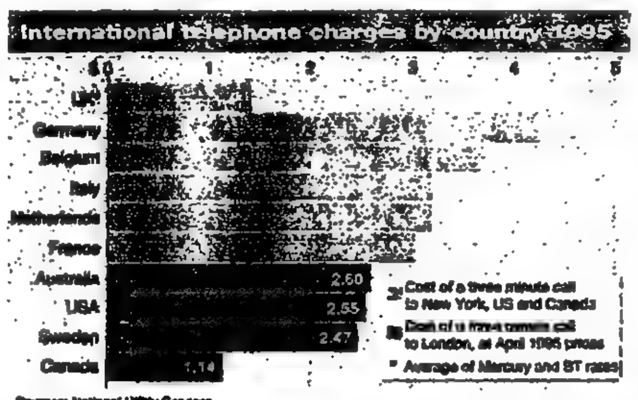
BT complains that Mr Cruickshank is treating it as if it were a utility such as gas or electricity where the risks are low, with corresponding returns.

It argues that the telecoms business involves high investment with uncertain prospects of return.

Mr Peter McCarthy-Ward, head of BT's price review team, says: "We do not think this is a low risk business. It has characteristics very different from the gas or water industries. Oftel's proposals, by concentrating on price and price alone, may lead to levels of return that deter investment."

Mr Cruickshank made his position clear earlier this month in a published statement: "If Oftel regulates BT in such a way that shareholders cannot earn a sufficient return on their capital, they will not invest and customers will suffer. It is, therefore, not in the customer's interests and nor is it part of Oftel's objectives to penalise BT's shareholders.

"However, this does not mean that BT should be able to earn monopoly profits for its shareholders by exploiting customers or seeking to exclude competitors, through its powerful market position."



Source: National Utility Services

A decision on the value of X and the services to be included in the basket is expected towards the end of the summer, although Mr Cruikshank was expected this week to give further hints of his intentions. If BT cannot agree with Mr Cruickshank's decision, the issue will be referred to the Monopolies and Mergers Commission for adjudication.

This is very much a last resort. An MMC investigation takes about nine months to pursue, involving senior management on both sides in costly and time-consuming preparation. Until last year, it had been used only once – and then by mutual agreement – to ensure the closure of dubious "chat" lines. In 1995, however, BT could not agree with Mr Cruickshank's decision that it should bear the full burden of the costs of number portability – the right of a customer to retain a familiar telephone number when changing operators. In that case, the MMC largely backed Mr Cruickshank.

A continuing problem for BT, seeking relief from the attentions of the regulator, and for Oftel itself, is the failure of new market entrants seriously to dent BT market dominance.

Cable television companies, allowed to offer voice telephony since 1991, are beginning to cut into BT's residential market share after a slow start. Some 50,000 BT customers a month are now moving across, prompting BT to offer a range of new pricing packages. Penetration should be helped by number portability expected to be available this year.

The cable operators are investing massively to create an information superhighway, at least within their franchise areas. There is no sign yet of a serious attempt to form alliances to take on BT nationally.

A helicopter lays cable for the radioactive incident monitoring network for which BT's Global Network Services will provide key elements

Two industries, however, have startled the UK telecoms industry in the past year by their vigour and growth potential. The first is the Internet, the worldwide network of computer networks. According to the consultancy Durlacher Multimedia, about 1.5m people in the UK had active access to the Internet by the end of last year. Some 67 per cent were from education, but a substantial proportion were business customers.

Durlacher says the UK market will grow exponentially: "As more PCs are sold and the Internet becomes available via cable television and across wireless telecommunications networks, subscriptions through commercial Internet access service providers will surge ahead."

BT has to some extent "legitimised" the Internet in the UK by offering a residential connection service. There is a possibility that low-cost voice telephony across the Internet could force operators, including BT, to rethink their international strategies.

The second industry to surprise is mobile telephony. According to Mr David Lewin, a telecoms analyst with the London consultancy Ovum, mobile operators could have a 50 per cent market share by the year 2000. Mobile phone penetration measured as the number of phones per head of population would equal fixed line penetration by 2002, he suggested.

BT has a majority stake in the mobile operator Cellnet, but the implication is that its market share could fall sharply irrespective of the efforts of more conventional competition or the efforts of the regulator.

Regulation: by Alan Cane

Time for a lighter approach

In essence, the telecoms watchdog could abandon the role of rulemaker to become market policeman enforcing competition law

Telecommunications regulation in the UK is at a crossroads. In the next few years, masses of weighty legislation may be swept away in favour of a simpler, competition-driven environment. If, that is, the regulator and the UK's larger telecoms operators can agree on the way to proceed.

Over the past decade, regulation has been responsible for substantial reductions in the prices paid by business and residential customers. It has also encouraged new competitors to take on British Telecommunications in virtually every sector of the business from local services to payphones.

As a consequence, the UK boasts the most regulated yet most competitive telecoms market in Europe. The regulator, Mr Don Cruickshank, director-general of the Office of Telecommunications (Oftel), would like this situation to change. He wants to move away from today's detailed regulation while simultaneously promoting a competitive environment.

As he said in a speech last year: "There needs to be someone with the duty of promoting effective competition. This means working on a whole range of micro issues to enable regulation progressively to melt away as the emergence and rooting of effective competition enables market forces to take on the role which they play in competitive markets."

A recent Oftel paper on fair trading explains: "Oftel considers that the time is now right for a clear move towards a regulatory approach which is at the same time lighter and firmer; lighter in that it imposes fewer *a priori* prescriptive rules but firmer in that it puts the onus clearly on dominant operators to ensure they do not indulge in anti-competitive behaviour."

> One problem is that competition law in the UK is weak

In essence, the telecoms watchdog would abandon the role of rulemaker to become market policeman enforcing competition law.

It is an ambition shared by BT. Sir Iain Vallance, BT chairman, said last year: "My view is that the regulator ought simply to apply the rules, to act as a referee objectively and impartially."

Despite this agreement on the ends, BT and the regulator are poles apart on the means. Mr Cruickshank wants broad powers to be able to identify, put an end to, and punish anti-competitive behaviour. BT says this would give him draconian powers of judge, jury and executioner in his own court and deny it the right of a final appeal to a higher authority.

One problem at present is that competition law in the UK is weak. It cannot be relied on to halt wrongdoing and provide remedies for companies damaged by such actions.

Furthermore, competition in telecoms has not developed at the rate expected when the government established, first, a duopoly of BT and Mercury Communications in the early 1980s, and then opened the market to all comers in the 1990s.

Don Cruickshank: currently in consultations with the industry

Sir Iain Vallance: 'The regulator ought simply to apply the rules'

BT, in fact, retains an overwhelming dominance. When it was privatised it had virtually 100 per cent of the UK telecoms market. More than a decade later, its share has fallen to only a little under 90 per cent.

There are a number of reasons for this. Mercury as a competitor did not always adopt the most effective strategies. BT, at the same time, shed thousands of staff, cut prices and implemented a raft of attractive market strategies. From being a sluggish, state-owned behemoth, it became a focused, aggressive operator more rapidly than its competitors might have believed possible.

It also has the advantage of ownership of the "local loop", the final connection between the exchange and the office or home. Only for the largest customers does it make economic sense for BT's competitors to built their own local loop.

For these reasons, Mr Cruickshank believes it is still necessary to give BT's competitors help in establishing themselves. BT argues against that view: "That the role of the regulator is to ensure that BT trades fairly is common ground between us: but handicapping us in order to create room for our competitors is emphatically not," Sir Iain says.

Regulation in the UK is largely the regulation of BT. Its licence runs to many closely-typed pages. Because of its size and dominance, it is generally considered to be the only operator which could indulge in anti-competitive behaviour. Other, smaller, operators are awarded what are known as "slimline" licences with less onerous conditions. They do not, for example, have to publish price changes in advance.

The opportunities for anti-competitive behaviour for a dominant operator such as BT are substantial. Because every other operator at some time has to interconnect with BT because of the ubiquitous nature of its network – each requiring an interconnect agreement – there are countless opportunities to delay negotiations or delivery of product or services, causing investment uncertainty for competitors and forcing them to change the timing of their business plans.

An example is number portability, the right of a customer to retain the same number when changing operators. It is essential to the development of a competitive market place. Businesses, in particular, are loth to lose a well-recognised local number. Number portability is not straightforward; switches have to be re-programmed and calls diverted, all of which has a measurable cost.

BT agreed with the principal of number portability but disagreed with the regulator's view that it (or its shareholders) should bear the full burden of the cost.

The issue was eventually referred to the Monopolies and Mergers Commission which decided that BT should bear the lion's share of the cost. BT essentially lost the war, but managed to keep the skirmishing alive for some five years. Its arguments were perfectly legal but at the same time it prevented its rivals – the cable television companies and Mercury Communications especially – from benefiting from number portability over that period.

This is not to suggest that BT routinely engages in unfair practices; the line between ordinary competitiveness and unfair trading can be hard to define, as Sir Peter Bonfield, BT's recently-appointed chief executive, has argued.

The question will be resolved later this year. Mr Cruickshank is at present consulting with the industry. If the two sides cannot agree, the consequence will be another referral to the MMC.

The cable alternative: by Raymond Snoddy

Revenues from telephony soar

The cable industry is poised to introduce a number of improved services, including a move to interactivity

The cable industry in the UK tends to become exasperated when critics continually point to disappointing performances in cable television.

Surely there must be something wrong when the percentage of consumers actually subscribing to their television packages has been stuck stubbornly at about 22 per cent for the past three years, the critics say.

The reality, the cable industry argues, is that billions of pounds are being invested in creating a superhighway which will meet the UK's future communication needs – and that now is the time to begin the business of marketing cable nationally with a £12m campaign. And anyway, the cable industry argues, in cable franchises already one in three homes is taking a service either for television, telecommunications, or a combination of both.

Increasingly, it is telecommunications that is the cable success story, with subscriptions rising at a far faster rate than television.

In the year to January 1 1996, the number of cable telephone lines installed grew from 717,586 to 1,419,819. There was a similar rise in business lines from just over 68,000 to 132,571.

> Videotron, the largest cable group in London, has introduced its own ISDN

The growth in the number of lines installed has already been translated into significant revenues for the cable companies.

In 1995, for example, TeleWest, the largest UK cable company, increased its residential telephony revenues by 145 per cent from £23.5m to £57.6m as its customer base grew to nearly 431,000 lines. Business telephony revenues nearly doubled from £8.8m in 1994 to £17.4m last year.

At General Cable, another of the big participants in the UK, telephony last year accounted for more than 67 per cent of total revenues, with residential customers spending an average of £288 a year and each business line producing average revenues of £988.

Already there are more than 145 cable telecommunications licences and the cable industry is optimistic that it will soon be able to increase the rate at which it can entice consumers away from BT and Mercury because of the arrival of "number portability" – which will enable customers to take their old number with them when they switch to cable. Number portability should begin to happen in the next six months and should be universally available within a year.

"Consumers' ability to retain their telephone number as they move to cable will remove a barrier for many people wishing to subscribe to the benefits of cable telephony and the services offered by TeleWest," the company said recently.

Mr John Killian, president and chief executive of Nynex Cablecomms, the second-largest cable operator in the UK, believes that liberalisation and increased competition in the telecommunications market has been of enormous benefit to the consumer.

While technical change has obviously been a factor, as well as increased competition, in 1984 the percentage of BT call failures was 2 per cent. By 1995, the industry average was 0.2 per cent. Fault repair within two days increased from 87 per cent to 95 per cent and installations on time rose from 60 per cent to 95 per cent.

According to figures from Oftel, there has been an even more dramatic change in real residential telephony charges between 1984 and 1995. Rental charges have risen by 8.6 per cent but connections fees have dropped by 40.9 per cent, local calls are down by 43.8 per cent, long distance by 78 per cent and international by 53.7 per cent.

John Killian: supports liberalisation and increased competition

The cable industry is also poised to introduce a number of improved services, including a move to interactivity.

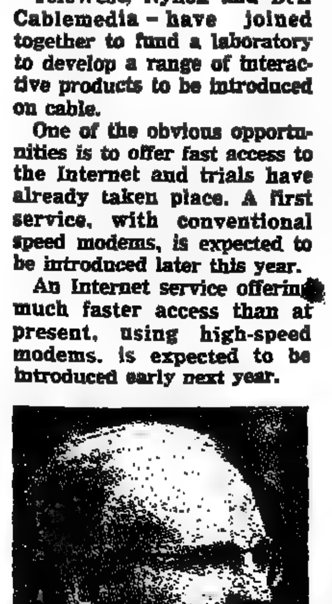
Videotron, the largest cable group in London, has recently introduced its own ISDN service offering high quality lines with customers offered free installation. A previous initiative, a "free local calls" scheme, was launched two years ago and so far more than 9m free voice and data calls have been made by subscribers.

Sophisticated telecommunications services will become more common and General Cable is among the cable companies which will be offering ISDN services later this year.

The three largest operators – TeleWest, Nynex and Bell Cablemedia – have joined together to fund a laboratory to develop a range of interactive products to be introduced on cable.

One of the obvious opportunities is to offer fast access to the Internet and trials have already taken place. A first service, with conventional speed modems, is expected to be introduced later this year.

An Internet service offering much faster access than at present, using high-speed modems, is expected to be introduced early next year.



Bob Wright: believes high-speed Internet access could be the saviour

Mr Bob Wright, president of NBC, the US network company which has a joint venture with Microsoft to launch new forms of interactive television, believes such high-speed Internet access could be the saviour of the European cable industry.

Some telecommunications analysts believe that the cable companies have a window of opportunity of perhaps two or three years to develop their telephone businesses. After that, intense competition in the market place could continue to squeeze cable's present price advantage.

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INTERVIEW Mercury chief executive

Peter Howell-Davies: 'I am focusing strongly on the quality of service'

Key areas for improvement

Mr Peter Howell-Davies's reintroduction to Mercury Communications was traumatic to say the least. He had been deputy chief executive of Hongkong Telecom for only two years when the call came last summer to take control of the company he had helped nurture though its early stages more than a decade earlier.

The reason for his sudden recall was the abrupt departure of Mr Duncan Lewis, Mercury's ebullient but abrasive chief executive. He left after a disagreement over policy with Mr James Ross, former chief executive of Cable and Wireless, which owns 80 per cent of the UK's second-largest telecoms operator.

Both companies were already going through troubled times. Mr Lewis had been brought in only nine months earlier to oversee a radical restructuring programme aimed at restoring Mercury's profitability.

The company had developed a poor record for quality of customer care and service. The Cable & Wireless international strategy was in question and there were continual rumours of break-up or takeover. Worse was to come. By the end of the year, both Lord Young, C&W chairman, and Mr Ross had been asked to leave after a personal row became public knowledge.

> He sets great store by his inside knowledge

The imperative for Mercury had to be a period of stability in the care of a safe pair of hands. Mr Howell-Davies, now 52, has been a C&W employee all his working life. He joined in 1962 when the company was still a government department and he was managing director of Mercury in 1990.

A genial, approachable man, he sets great store by his inside knowledge of the group: "The fact that I was known by 40 or 50 per cent of the people inside the company was helpful," he says, pointing out that the interim results – Mercury made operating profits of £103m, up 7 per cent on the year before – indicated that a measure of stability had been achieved.

Mr Howell-Davies is broadly following the strategy set by Mr Lewis: cutting costs and focusing on particular market sectors such as the oil industry and pharmaceuticals.

He points to two key areas where Mercury must improve: "I am focusing strongly on the quality of service Mercury provides. I do not think it is as good as it needs to be. Low prices and quality of service will be taken for granted soon and operators will have to differentiate themselves by the value they can add to the services.

"It is not something we will be able to accomplish overnight. As long as I can see incremental improvements against a given benchmark, I will not be unhappy.

"It is something Mercury has got to get right. In the early days of the company, we used to have a 'can do' attitude. If customers wanted new lines in their offices, we would get them in no matter what it took.

"We want to retain a 'can do' mentality, but we have to ensure that the basic services go in when the customer wants them, to a price they find acceptable, every single time."

One indication of the emphasis on quality is the appointment of Mr Christopher Chadwick from the Leeds Building Society as customer service director.

Mr Howell-Davies's second priority is the group's computer systems: "This company, like any telephone company, is hugely dependent on computer systems, whether to bill customers, provide services or create marketing databases – not to mention the switches we need to run the network or add intelligent network capabilities.

"Mercury has not had a very good track record for systems. We have never been very good at implementation. We are good at identifying what we need; very good at designing what we need. But when it comes to the implementation, we have been less than perfect.

He adds: "I want to be sure that we successfully identify and implement the new systems that we need. It is easy to get a disconnect between what the business sponsor says he wants from a new system and what the information technology department is beavering awy to deliver."

Better systems could imply fewer staff. Mercury has already lost some 2,500 jobs in the past year, and got out of unprofitable areas such as public payphones, customer equipment and directory inquiries.

Mr Howell-Davies believes staff numbers will fall further, but is reluctant to quote a figure. "I do not know the figure. But if we can reduce the number of faults and billing inquiries by installing better systems, we will need fewer people to manage the number of enquiries."

The most visible aspect of Mr Howell-Davies's tenure has been an advertising blitz of heroic proportions, featuring cartoon characters.

"Mercury has not advertised for well over a year for obvious reasons," Mr Howell-Davies says. "We felt we were sufficiently back on track and sufficiently confident of the ongoing growth of the business that it was time to get back into the marketplace.

"It was time to demonstrate clearly that we were here to stay and that we were going to continue to be a significant player."

That could involve a closer relationship with the cable television companies: Mercury is working with Bell Cable Media to built a model of co-operation which other cable companies may be tempted to emulate.

If, of course, Mercury is not sold off as a consequence of the sale and break-up of C&W. Revelations that British Telecommunications and C&W have been discussing the possibility must raise questions about Mercury's future.

Mr Howell-Davies, however, is sanguine about the future: "Cable & Wireless continues to say with great logic that Mercury is a key part of its global strategy. Mercury is C&W's European hub and the 13th-largest carrier of international traffic in the world. It would be difficult to see how C&W could sustain a global strategy without a significant player in the UK."

Alan Cane

■ **PCS operators:** by Christopher Price

National coverage is the main issue

Digital offers better quality, greater capacity and lower service costs than analogue

When Orange floats on the London and New York stock markets later this month, there will be one message which the UK's youngest mobile phone group will have left embedded in investors' minds: coverage.

"The most important factor in mobile is coverage, coverage and coverage," says Mr Hans Snook, chief executive of Orange. "You cannot offer mobility of phone usage without being able to offer national coverage."

It is a message which has not been lost on Mercury One-2-One, the other of the four UK licenced operators to offer a purely digital mobile service. The company, which is owned by Cable & Wireless and US West, has pursued a markedly different policy to Orange, opting to develop regional coverage ahead of a national strategy.

However, One-2-One has decided to change its policy. "We have recognised that coverage has become a major issue at the point of sale, and we have brought forward our roll-out," says Mr Richard Goswell, managing director of One-2-One.

The group will have some catching up to do, however. Orange, which came into the market in 1994, has achieved 85 per cent coverage, while Vodafone and Cellnet, which have been operating for more than 10 years, have more than 95 per cent.

One-2-One, which was launched several months before Orange and which has concentrated its efforts in the south-east of England, has just 40 per cent national coverage. It is aiming for 45 per cent by the end of this month and for 80 per cent by the end of the year. It hopes to have 95 per cent coverage by the end of 1997.

However, Mr Goswell is keen to emphasise that its regional policy has served the company well, and that it is simply responding to the changing requirements of its customers. "Launching a national service with the technology we were using would have been high-risk."

The company's research showed that the pattern of a majority of telephone calls revealed a heavily regional bias.

"Our capacity in the London area is twice that of any of our competitors," says Mr Goswell.

Mr James Ross, telecoms analyst at Hoare Govett, believes One-2One's regional expansion policy has helped establish the company's strong brand image as a value-for-money operator which will stand it in good stead for the future. "Ninety per cent of all new customers over the next decade will be private domestic users and One-2-One has shown itself adept at succeeding in that area of the market."

Goswell: 'Coverage has become a major issue at the point of sale'

In addition to coverage, the four operators differ in other areas of their business.

On pricing, for example, each has tried to establish a variety of tariffs and incentives in order to differentiate itself – and thus make itself more attractive – to potential customers.

One-2-One has perhaps been the most prominent in promoting its low-cost tariffs, emphasising its free local calls at weekends and evenings, although the latter have recently finished due to what Mr Goswell calls the end of the "launch phase." However, he maintains: "Fundamentally, we are still the best value-for-money mobile phone operator for a person making regular use of the phone."

The other operators would dispute this, in particular Orange which has made a virtue of its price innovations. Its tariffs, geared to the amount of phone usage in clear unambiguous terms, has won it applause in an area which many mobile users have found the most complex and daunting. It is one of the reasons Orange claims a lower "churn" – the rate at which subscribers fail to renew – of about 18 per cent against an industry average of 23 per cent.

The tariff competition from Orange and One-2One has prompted changes from both Vodafone and Cellnet. It has also put further downward pressure on telephone handset prices as the operators offer subsidies to dealers in order to offset tariff rate differences. Handsets which should retail for about £200 or more are being sold for as little as £9.99.

Another area of differentiation has been in service. Unlike Cellnet and Vodafone when they launched, One-2-One and Orange were allowed to contract customers directly. This has enabled both companies to build their brands through direct sales and advertising, and also to benefit from improved cash flows, helped by putting customers on direct debit, for example.

Vodafone and Cellnet, which used to have to sell through dealers, are also now able to contract customers directly. However, most of their business is still conducted through service providers such as Talkland and Peoples Phone. These sell air time to dealers and customers, arranging their own tariff structures, discounts and special offers. Crucially, it is the service providers who own the customers, not the network operators.

> Analysts believe there will be sufficient room in the market

Due to their head start, Vodafone and Cellnet each have about 44 per cent of the mobile market, with Orange and One-2-One sharing the remainder almost equally. However, the market is divided between the old analogue service, offered by the two original operators, and digital, offered by all four companies.

Digital is seen as the industry standard of the future, offering better quality, greater capacity and lower service costs than the analogue technology. A government advisory paper recently recommended that all mobile phone users should move to digital by 2005.

Orange and One-2-One have signed up more than 400,000 each of the 5.5m mobile users in the UK, equivalent to about a 25 per cent share each of the digital market.

However, while the differences between the operators are likely to become more marked as the mobile market becomes more mature, analysts believe the expansion in the market will leave room for all four to operate profitably. Hoare Govett estimates that the mobile market will have 12m users by the end of the decade and 19m by 2005.

OPERATOR PROFILE **Mercury**

The pressure is mounting

Many in the telecommunications industry believe Mercury has only recently come to terms with the full implications of the government's duopoly review, published five years ago this month, which opened up the UK's fixed telecoms market to competitors other than Mercury and BT.

Mercury was criticised for continuing to behave after the 1991 review as if only itself and BT were present in the market place and attempting to compete with its larger rival only on price rather than on developing innovative new services.

The low point for the carrier was certainly December 1994 when, following disappointing interim results, an extensive restructuring was launched with the result that about one-third of its 11,400 workforce left and its directory inquiry, payphones and customer equipment activities were either closed or sold.

In addition, it also severely cut back its activities in the residential telephony market.

Matters hardly seemed to improve with the resignation in September last year of chief executive Duncan Lewis, brought in from parent Cable & Wireless to supervise the 1994 restructuring. The departure of Mr Lewis, Mercury's third chief executive to leave in 3½ years, followed disagreements with members of the C&W board over strategy.

Then, only two months later, C&W's executive chairman Lord Young and chief executive James Ross both left after an internal power struggle. The publication this month of a government proposal to end Mercury and BT's duopoly on facilities-based international services, which had been preserved by the 1991 review, intensifies pressure on Mercury to reassess its future direction.

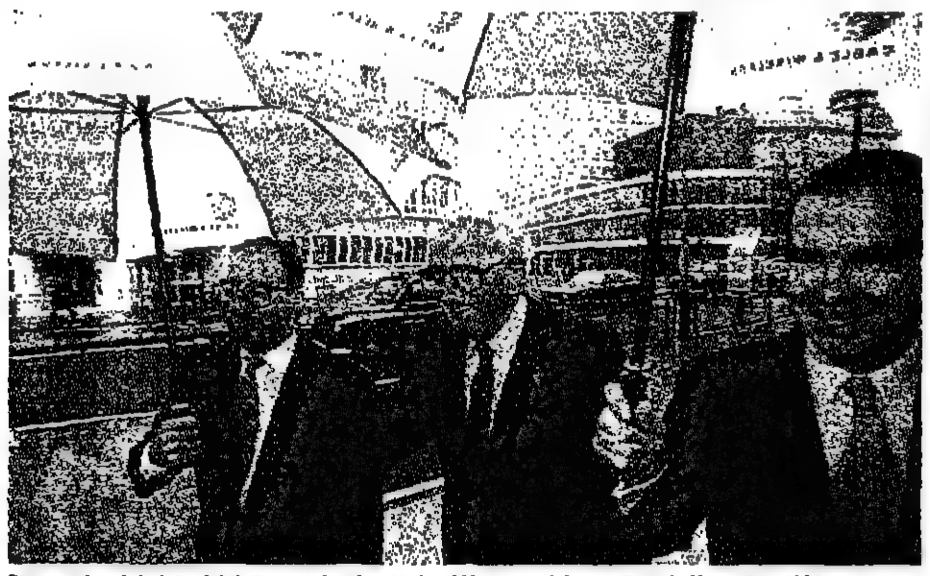
Further insecurity was raised by the revelation that C&W recently had unsuccessful merger talks with BT. If C&W, which in the past has had similar talks with AT&T, had agreed a deal with BT, then Mercury would certainly have had to be sold on to another carrier to avoid the merger running into regulatory difficulties in the UK. The main thrust of Mercury's business is now to strengthen its position in the market for providing services to corporate customers. It is attempting to develop the innovative services demanded by this group of customers, although it faces stiff competition not just from BT but also from newer carriers in the UK market such as AT&T, City of London Telecommunications (Colt), MFS Communications and cable television operators.

Mercury has not been helped by its customer service: a recent survey by Oftel rated its ability to deliver services in the time promised, and repair faults, as behind BT and several leading cable operators. Mercury's billing system, however, was rated highly by the survey.

The carrier received a boost from the award of one of the government's three wireless-local loop licences in February. The licence entitles Mercury to use radio links to deliver broadband services, such as integrated services digital network (ISDN), to those business customers for which a direct link to the Mercury long-distance network is not cost-effective.

The licence means that Mercury should be able to cut some of its sizeable interconnection payments to BT for using its local network. Breaking its reliance on BT in this way, in search of business customers, is indicative of the direction which Mercury hopes to find through a more focused strategy.

Richard Handford



Storms ahead: (left to right) Duncan Lewis with Lord Young and James Ross in November 1994 *Trevor Humphries*

OPERATOR PROFILE **BT**

Not yet master of its fate

Only after merger talks between British Telecommunications and Cable and Wireless, the UK's two largest telecoms companies, broke down earlier this month did the full ingenuity of their spectacularly novel plans emerge.

The acquisition would have created a world-class telecommunications giant outstripped in revenues only by NTT of Japan, AT&T of the US and Deutsche Telekom of Germany.

Cable and Wireless, with a market capitalisation of about $10bn, would have acquired BT, worth more than twice as much, through a reverse takeover.

BT had originally approached C&W with a view to merging with the smaller company. Under Hong Kong stock exchange rules, however, BT would have had to buy out minority shareholders in Hongkong Telecom, in which C&W holds a 57.5 per cent stake. This would have added some $6bn to the cost of the takeover and put it beyond BT's reach.

The deal fell through because of disagreement over the value of C&W and difficulties in Germany, where both companies have strategic alliances.

The prize for BT would have been Hongkong Telecom, the most profitable of C&W's operations and key to an area where the UK operator is under-represented. The collapse of the deal leaves the UK's dominant operator still to build an appreciable presence in the Asia Pacific region but with its reputation for audacity in pushing forward its global strategy unsullied.

BT, privatised since 1984, has transformed itself from a stodgy, national utility through aggressive strategies at home and abroad and close attention to costs. Some 100,000 jobs have been lost over the past five years. It is now a serious contender for the role of Europe's leading telecoms company. Some measures suggest it is within 10 per cent of the performance of the world's most efficient operators.

In the UK, it performs as well, or better, than its competitors. Office of Telecommunications figures show, for example, that it cleared 87.3 per cent of network faults within its published target time, compared with 77.4 per cent for Bell Cablemedia and 98.7 per cent for Kingston Communications.

Milestones include a deal with MCI, the US's second-largest long-haul carrier. The two companies formed Concert, a "global supercarrier" aiming to capture the lucrative international business of multinational companies to which it can offer an seamless "end-to-end" service.

The MCI alliance is at the heart of BT's global strategy. It invested $4.3bn for a 20 per cent share of the US company – a price which some commentators questioned at the time but which now seems a foresighted deal.

Ovum, the London-based consultancy points out: "The alliance brings together the two companies' networks and skills. The cultures of the two are complimentary in that BT is known for being staffed with technocrats while MCI is more marketing led."

In the early days of the alliance, demarcation lines were strictly observed: MCI dealt with North America, BT handled the rest of the world. As the two companies gain experience in working together, some relaxation of this demarcation is expected.

A further pointer to the future was the appointment at the beginning of this year of Sir Peter Bonfield, formerly chairman and chief executive of the computer company ICL, as chief executive. Sir Peter's appointment is reckoned to herald a new phase in the development of BT from a telephone company to a telecoms group able to provide a broad range of advanced services including multimedia and interactive services such as video-on-demand and home shopping. It is already experimenting with video games played across the network from kiosks.

These developments are important for the group's future. BT, despite its dominance in the UK market where it has about 87 per cent of the business market, must find ways to increase its profitability.

Sir Peter Bonfield's appointment is reckoned to herald a new phase

Margins will come under increasing pressure as competition increases, especially from the cable television operators, now free to offer voice telephony, while the telecoms regulator is threatening to tighten the "cap" which regulates BT's prices.

It has more than 26m customer lines, made up of 20m residential lines and 6m business lines. In the year to March 31 1995, it made pre-tax profits of £2.66bn, a 3.4 per cent decline on the year before, on revenues of £13.9bn.

The threat from cable operators, now persuading 50,000 BT customers a month to opt for their services, is being taken seriously.

As Ovum points out, BT's principal challenges are to make the Concert alliance work internationally while boosting call volumes and retaining customers in the UK.

To support Concert it has been building alliances with partners in mainland Europe in preparation for the planned full liberalisation of the European market on January 1, 1998.

It plans, for example, to work with RWE and Viag, two of Germany's larger industrial groups spending up to £1.8bn between them to create a telephone network.

In Italy it formed a joint venture, Albacom, with Banca Nazionale del Lavoro last year while in Spain it has a stake in Megared, a data transmission company owned by Banco Santander.

The missing link is France and an acquisition or joint venture is expected in the next few months.

For the future, much will depend on the regulatory regime. If the regulator applies a tight cap to prices, the group's attractiveness to investors may be damaged.

BT, for all its focused aggression, is not yet the master of its fate.

Alan Cane

OPERATOR PROFILE **Energis**

Bright sparks on the grid

Energis, launched 18 months ago in a blaze of publicity as the UK's third national carrier, has since settled down to a more pragmatic approach to the UK telecommunications market.

The carrier, which is owned by the National Grid Company, has pulled back from ambitious plans to become an all-round competitor to BT and Mercury in favour of concentrating on business customers.

Energis has dropped plans to provide long-distance services for consumers and to sell capacity on its network to other carriers, acting as a carrier's carrier, in favour of developing its business services such as virtual private networks, calling cards and high-speed data applications. It currently serves around 20 companies in the UK with these kind of services.

The more cautious approach appears to have evolved since a restructuring last summer when 60 out of the carrier's 400-500 strong workforce were cut, including six top executives. The cuts followed the departure of former chief executive David Dey after reported clashes with chairman Gordon Owen.

The narrower strategy is confirmed by new chief executive Mike Grabiner, who joined Energis eight weeks ago from BT where he was director European operations. After the departure of Dey, Owen held both the positions of chairman and chief executive as an interim measure.

"We need to use the intelligence and capacity of our network to differentiate ourselves," says Grabiner, wary of falling into what he terms the "me-too" trap of Mercury which in the late 1980s and early 1990s presented itself as an identikit, but cheaper, version of BT.

According to Grabiner, Energis must use the high bandwidth capability of its network, which is slung along the National Grid's electricity pylons, to develop new services in areas where no other carrier is present.

Grabiner claims the carrier has already found such a niche with a service that routes calls from Internet customers to their access providers. Energis claims to carry 60 per cent of all such traffic and includes Mircosoft, America On Line, UK On Line and Demon among its customers.

Chief executive Mike Grabiner joined Energis eight weeks ago from BT

But before Energis can branch out into other new areas it must acquire a higher profile. Grabiner was recently told by a customer that the carrier was the "best-kept secret" in the telecommunications industry.

A higher profile will also be useful for the carrier as it hunts for a strategic partner, a key objective according to the National Grid's November flotation document which laid out its plans for Energis.

The Grid said Energis's development was slower than anticipated and that the carrier faced mounting losses. Full-year losses in the year to March 31, 1996 are likely to be considerably higher than the £52.9m reported in 1994-95.

A timetable of 12-18 months has been set by the Grid, which is thought to want to retain a stake in the carrier, for finding a strategic partner. The preferred match is another telecommunications carrier with an international presence which could bolster the international service offered by Energis to its customers.

The carrier had unsuccessful talks with AT&T early in 1994 but the US international carrier is still a possible partner. Other candidates could include three other international operators – Sprint of the US, Teleglobe of Canada and Australian carrier Telstra, all of whom Energis uses for routing its international calls out of the UK.

OPERATOR PROFILE **AT&T**

A giant enters on tiptoes

There was a general feeling of anti-climax when AT&T, the largest telecommunications operator in the US, finally revealed its long-awaited strategy for breaking into the UK market last month.

Only three months earlier, AT&T had announced a radical overhaul of its monolithic business into three highly focused divisions, a move that was expected to make the US giant a potent threat in Europe.

But contrary to expectations AT&T is taking a softly-softly approach to the UK with a business plan notable for its restraint and caution.

AT&T will initially focus on the medium to large business sector, building on the virtual private network and data services it already offers with the launch later this year of public long-distance and international services based on international simple resale. This will be followed by multimedia, video-conferencing and freephone services. Ultimately AT&T's aims to offer services to residential customers.

There is nothing unusual or particularly ambitious in this approach, which makes it more surprising that AT&T has not made its move sooner. It has been sitting on its UK telephony licence since 1994 and was originally due to launch services last summer.

It has always been difficult to figure out the exact nature of AT&T 's plans for the UK market or, for that matter, the rest of Europe. AT&T has procrastinated and in the past has appeared incapable of fixing a firm strategy for building up a business in the UK.

AT&T is perhaps better known in the UK for high-profile deals that fell through rather than for anything it has actually done. At one point AT&T looked set to storm into the UK market through the acquisition of Mercury Communications, or more recently by investing in Energis, the UK's third long-distance carrier owned by the UK that could have strengthened its hand. It was widely expected to be among the bidders for the sale of British Rail Telecommunications, a subsidiary of the British Railways Board that has its own long-distance network. AT&T's name was also absent from the line-up of applicants for radio frequencies offered by the Department of Trade and Industry last December for local loop services.

However, one should not underestimate AT&T or downgrade its chances of achieving target revenues of $1bn a year in the UK by the year 2000.

AT&T might have missed some good opportunities in the UK, but in the 15 months since it was awarded a UK telephony licence it has built up a long-distance back-bone network stretching from London to Edinburgh.

In January, AT&T showed that it was capable of forming alliances with alternative UK carriers when it secured an interconnection agreement with the City of London Telecommunications (Colt). And now that AT&T finally knows what it wants to do in the UK there is every chance that it will be able to secure additional interconnection agreements with other carriers.

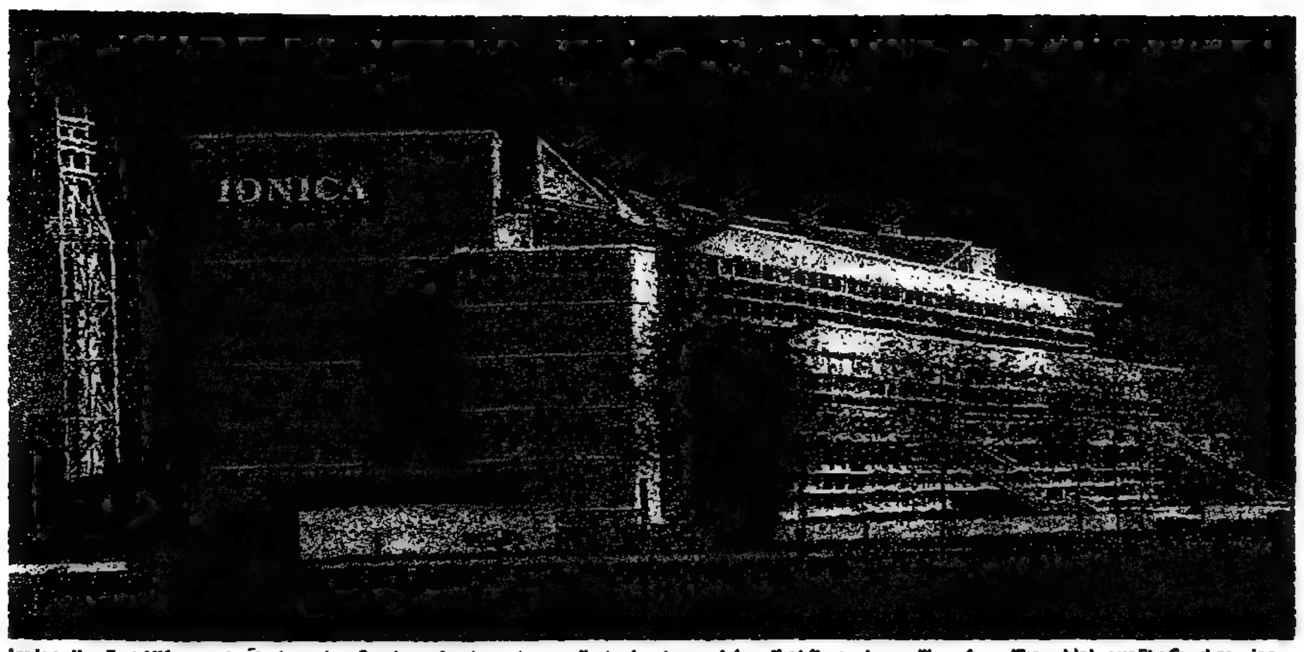
AT&T's UK strategy might not be adventurous but it is sensible and solid, qualities that are likely to win confidence in the business community and make AT&T an enduring player in the UK market.

Eden Zoller

Radio access: by Kris Szaniawski

Telephones take to the air

Next week, the UK's first fixed service based on radio technology will be launched



Ionica, the first UK operator to launch a fixed service based on radio technology, claims that its system will perform like a high-quality fixed service

Residential and *small* business users will next week have the choice of using an innovative radio-based telephone service which is being launched by a Cambridge-based independent start-up company.

Ionica uses digital radio technology to reach its customers rather than the conventional underground cables or overhead wires. It is initially *offering* its services to customers in the Anglia TV region from March 26 but plans to gradually extend its operation to the rest of the country. This makes Ionica the first national challenger to BT in the local loop, because cable operators have *only regional* licences.

Ionica is the first UK operator to launch a fixed service based on radio technology. Several *more such services aimed* at residential users and small- to medium-sized businesses will follow soon.

Radio technology has already been used internationally as a cost-effective means of introducing competition into newly liberalised developed markets, or to satisfy pent-up demand in developing areas where telephone lines are scarce.

The advantage radio technology has over other methods of *operation is that it allows* an operator to roll out a network *quickly and with relatively lit*tle investment. Once a base *station is in place*, an *operator* needs only to connect its customers instead of digging up a street to lay cables. Low prices are a big selling point for new operators and radio access technology helps to achieve that.

Nigel Playford, Ionica's chief executive, says the new technology will ensure that the company can compete with BT on price as well as on service. Ionica will address the residential and small business market by using radio to provide the link between existing telephone equipment and Ionica's telephone exchanges.

Ionica claims that its radio-based system will perform like a high-quality fixed service. *The fixed* radio access *(FRA)* technology which it has devel*oped in conjunction with* Canadian manufacturer Northern Telecom (Nortel) to operate in the 3.4 GHz range of the spectrum, will deliver speech quality, availability and reliability at least as good or better than conventional wired networks. The FRA technology will support a full range of telecoms services and will have plug-in compatibility with existing telephones and other equipment such as faxes and modems.

The FRA technology specified by Ionica had to be pur*pose-designed to meet all these* requirements and has taken some time to perfect. Although Ionica was awarded its operating licence in February 1993, long, drawn-out technical and customer trials took place before it was in a position to launch a commercial service. It has raised around £150m from leading investors such as Yorkshire Electricity, Telecom Finland, Northern Electric, Robert Fleming Investment Trust and CWB Capital Partners and a public offering in London and New York is likely this year.

Under the terms of the licence the company will have *to reach 75 per cent of the pop*ulation of England and Wales within four years of beginning its service. The company expects to capture 5 per cent of *the market within the areas it* serves within five years of starting up. It will not offer a service in Scotland because it has agreed a £22m deal which will provide Scottish Telecom, a wholly-owned subsidiary of Scottish Power, with a licence and with access to its radio spectrum so that it can provide telephone services throughout Scotland.

Ionica will need to attract customers quickly to forestall competition from several other *radio-based services due to be* launched in the next few years. The first of these competitors will be Liberty Communications and Atlantic Telecommunications, which both also have licences to run a wireless telecommunications service in the 2 GHz to 4 GHz frequency range and expect to launch commercial services in the first half of this year.

Like Ionica, Liberty Communications holds a national operating licence and will be targeting the small business and home-worker markets across the UK.

Atlantic Telecommunication, *which is owned by cable televi*sion operator Caledonian *Media Communications*, plans to launch a fixed wireless service in the Glasgow and Strathclyde areas this spring. It aims to target high residential *spenders and the small to* medium-sized business market.

A second wave of services is also expected following the UK government's award in February of five additional radio access operating licences to a wide range of companies, spanning the scale from BT to start-up company RadioTel.

The government intends these new licences to serve different markets but there is *bound to be some overlap* because all will be concentrat*ing on either the residential or* small to medium-sized business markets.

Large businesses in central business districts were the first to benefit from access to more advanced services following the liberalisation of the UK market. The arrival of new radio-based services will make these advanced services available to small and medium-sized businesses as well as to domestic consumers at a reasonable cost.

Three licences have been awarded in the 10 GHz range of the spectrum for the provision of advanced high-bandwidth *Integrated Services Digital Net*work (ISDN) services such as high-speed Internet access, video-conferencing, video-security applications and other digital voice *and data services. The* licences were awarded to Mercury, National Transcommunications Limited (NTL) and a joint bid from Ionica and Scottish Telecom. Commercial services could be launched as early as this year.

Ionica's reason for obtaining this licence, says Nigel Playford, was to complement its 3.4 GHz licence, allowing Ionica to meet demand for digital services *requiring* bandwidths greater than basic rate ISDN, *such as high-speed Internet* access and video telephony. *Although the 10 GHz* licences are for the provision of more advanced technical *services*, they, too, will be targeted at the small and medium-sized business markets.

Two regional licences have also been allocated in the 2 GHz section of the spectrum for the purpose of extending telecoms services to customers living in remote rural areas in Scotland, Wales and northern England.

These licences were awarded to BT and start-up company RadioTel. BT hopes to launch *services possibly later this* year and RadioTel' plans to *launch its services* in 1997. Their services will be aimed at domestic users or small businesses.

Mobile telephony: by Richard Handford

Deadline for digital

The operators have already acted to discourage new subscribers to the analogue networks

The government's strategy paper on future use of the *Britain's mobile phone spec*trum, published at the end of February, set Cellnet and Vodafone a deadline for completion of their transition from analogue to digital technology. The government said it would like to see the two carriers move all their customers on to their more efficient digital networks, based on the GSM standard, by the year 2005, leaving capacity on the analogue networks, based on the Tacs-900 standard, free for the government to re-allocate for other purposes.

Cellnet and Vodafone have already started the task of migrating the 2m customers each has on their analogue networks onto their less-populated *digital networks. Cellnet has* about 300,000 GSM customers *compared to 450,000 customers* for Vodafone.

The two cellular operators have already acted to discourage new subscribers joining their analogue networks by making the cost of handsets and tariff packages more attractive on their digital networks. This process, which only really started to take effect in 1995, involved increasing *subsidies on digital hand*sets to make them *similar* in price, or cheaper, than analogue *models. It also meant* only introducing new tariffs onto the GSM network and phasing out less popular analogue-only packages. The result is that the majority of new customers joining their networks now head for the GSM service.

The two companies are also persuading existing analogue customers to move over to digital. Initially, they have targeted business users, many of whom joined the analogue networks in the years following their launch in 1985. *Cellnet* and Vodafone only launched *their GSM services* in the early 1990s and they did not begin *promoting them seriously* until late in 1994.

Business users represent about 750,000 of the total 2m users on each of the networks, while the rest are consumers, *or low-users, who make fewer* calls over the network than business users. It is a higher priority to move these traffic-generating users over to the higher capacity digital network since, according to Vodafone's *calculations*, a business user uses five times as much capacity as a domestic *consumer*.

The strategy used by Cellnet and Vodafone's service providers, the direct sales organisations that retail the operators' services, is to approach companies, which might have hundreds of phones on their account, when their existing *contracts for analogue* phones is due to terminate. These companies are offered an attractive deal to switch over to the digital network which, compared to analogue technology, offers better security and can be used in all European countries.

The reduction in the absolute number of users on the analogue networks, which is *likely to happen* this year, frees the operators to begin converting analogue *to digital* capacity. The operators have started this process in several big UK cities since the beginning of the year. "It is very tricky from a radio planning point of view," says Mr Mike Tiplady, Cellnet's technical director. He has to ensure that Cellnet only reduces analogue capacity at a speed that is less than the rate *of migration* to the GSM network. Otherwise analogue users might *perceive* a poorer quality of service. *Both operators are also build*ing their GSM networks so that coverage on them is equal to the more established analogue networks. Both have so far spent between £450m and £500m on their networks and expect to invest an additional £500m-£800m by 1998. The operators have other tricks for squeezing more capacity out of their GSM networks in the future, such as splitting existing cells (the cellular coverage area) in two. In addition, Cellnet recently started to test new microcellular equipment, *developed by US manufacturer* Motorola, which creates extra *capacity in congested areas*.

It was originally thought that the two analogue networks would only have capacity for 750,000 customers between them. The present total of 4m *customers was just unthink*able a few years ago. The government's spectrum review also offered some help to the operators by opening up the possibility of allocating Vodafone and Cellnet spare capacity in the 1800MHz part of the spectrum, next to where rival *operators Mercury One-2-One* and Orange have been allocated frequencies.

Vodafone and Cellnet which currently operate in the 900MHz part of the spectrum, will be allowed to use part of the 1800MHz spectrum in return for developing "new and *innovative" services. Both are* likely to offer to use the spectrum to improve coverage inside buildings for corporate users. With dual-mode handsets that work at both 900MHz and 1800MHz, customers could have a wireless phone for use in the office as well as a standard cellular to use on the move. The measures mentioned above should mean that by the turn of the century *there will be capacity for a* much bigger number of cellular subscribers than at present. Currently, Cellnet and Vodafone each have sufficient capacity for about 3.5m users on both their analogue and digital networks. By 2000-2005, they are likely to have capacity for 14m GSM users, leaving the analogue network, which would by this time be winding down, with capacity for 1.5m *users. Seasoned industry* observers believe neither oper*ator runs* a *serious risk* of running out of capacity. If anything, the operators run a greater risk from losing customers than having insufficient capacity to serve them.

The danger comes from newer operators Mercury One-2-One and Orange, both aware of the more established operators' migration processes, and ready to pounce. Both are attempting to persuade analogue users about to move over to their digital networks, based on the *DCS-1800* standard, rather than stay with their *existing operators. The fact* that half of Orange's new cus*tomers are former customers of* Cellnet or Vodafone should act as a warning about the real risk of migration.

Technology: by Kris Szaniawski

Numerous fresh opportunities

A telepresence application can provide a fixed link between a remote rural health centre or community hospital and a large teaching hospital

A working prototype of BT's 'Office on the Arm' worn by BT director and Businesswoman of the Year Patricia Vaz. The console includes a miniature colour screen and mouse pad and voice recognition software

New links between hitherto disparate technologies are creating numerous new business opportunities in telecommunications.

Probably best known is BT's interactive multimedia trial in Colchester which is presently testing the delivery of video-on-demand, teleshopping, telebanking, and other information and education services over both fibre optic and copper cable networks to residential customers. But such classic "information superhighway" multimedia services are only one aspect of new developments in the communications industry.

One only needs to look at work being carried by BT at its research and development facility at Martlesham Heath near Ipswich to get a feel for the way things are going. With more than 3,000 employees, the laboratory complex is the largest concentration of communications, electronics and software specialists in the UK and is at the forefront of UK communications technology R&D.

According to Mr Ian Pearson, at the BT Centre for Human Communications, at Martlesham, certain key themes to future developments can already be identified. Technological developments over the next few years are likely to be characterised firstly by a continuing emphasis on increasing mobility; secondly by a shift from voice communications to visual applications such as videoconferencing, interactive television and other forms of multimedia; and thirdly on controlling machines through speech.

BT's Camnet telepresence system is a clever piece of convergent technology already in production and illustrating some of these characteristics. The system allows a distant expert to look over the shoulder of a technician or medical worker, seeing and hearing what the person on the spot experiences in 3D if required and enabling the observer to give instant advice.

Paramedics wearing the headgear at the scene of a crash, for example, can be linked by satellite to a consultant at a distant hospital who can give an instant diagnosis.

A telepresence application can also provide a fixed link between a remote rural health centre or community hospital and a large teaching hospital. BT has carried out trials on such systems, experimenting with surrogate surgery and remote foetal scanning over existing ISDN links and they are now being made commercially available.

Because there is still a one-third of a second coding delay over existing ISDN high-speed data links, a surgeon cannot yet issue commands such as "keep cutting till I say stop". However, once broadband ATM networks become more generally available it will be possible to support real-time video without delays or image degradation.

Once this is in place, more advance applications such as robotic surgery will become a possibility, with a surgeon wearing virtual reality glasses in one location performing an operation in another.

Advanced videoconferencing techniques also have other uses. BT is using its expertise in video coding skills to develop systems which will allow users to share a computer-generated "virtual workspace", within which they can co-operate at a distance on the same piece of text or design. Other systems under development include a videoconferencing system which for the first time allows real eye contact with the person at the other end of the line.

Another example of converging technologies is the "office on the arm" – a combination of laptop computer, digital cellular phone, mobile link to the Internet and a voice recognition system all squeezed into a wearable package – developed at Martlesham Heath. A working demonstration model already does many of the things it is meant to do.

The technology to make the office on the arm commercially viable is to a large extent already available and new applications, videophone, for example, will soon become possible.

Some technology issues, such as poor screen resolution and high energy consumption, still need to be sorted out but according to Mr Roger Payne, BT technology integration specialist, a fully-functioning model should be available in four to five years.

One way of sorting out the problem of power-hungry applications, says Mr Payne, might be to transfer some of the intelligence across the network. The office on the arm could be linked over a radio network to a PC back at the main office where most of the intelligence would remain – and where most of the power consumption would take place.

For the office on the arm to be viable it would not necessarily require a high bandwidth ISDN link to the main office from everywhere in the country. For example, the existing digital cellular GSM network could provide narrowband capabilities nationally but localised high bandwidth ISDN connections could be provided at key points such as railway stations, airports or motorway service stations to permit the transmission of bandwidth-hungry video or data services.

A key difference between the office on the arm and current day laptop will be the absence of a keyboard. At present, a finger pad allows the user to move the cursor around on the screen, but with time, speech recognition software will allow more direct control.

Rapid technological developments are taking place in speech recognition. BT already has a trial corporate directory service that allows users to access telephone numbers by asking for someone by name. It is also demonstrating a telephone catalogue service that allows users to choose the phone they want by talking directly to the catalogue without any human intervention. These products could be released on the market as early two or three years from now.

Speech recognition and voice synthesis advances are seen as particularly important by Professor Peter Cochrane, BT's head of advanced research, who already has a system in his car that allows him to access e-mail messages by voice. Being able to talk to your phone or television and have them respond to you in kind will be a key advance. It will allow more efficient information management and reduce delays. But most importantly, as far as Cochrane is concerned, it will make technology more user-friendly.

Mr Cochrane points out that people have to want to adopt new products if they are to be successful, and reducing "technophobia" is an essential ingredient. Talking your way through a telebanking transac-

> Opportunities and applications will be limitless

tion without having to resort to a keyboard is likely to make it a much more acceptable proposition.

This kind of interaction is only one step away from a more advanced form of artificial intelligence. Imagine being able to ask a television or PC to find out about times of aircraft flights – and it will be able to set up an agent at the airport computer to watch out for any delays. Similarly, when your car breaks down, it will automatically send a message to the nearest garage to tell it what has happened.

This may still be a few years away, but more rudimentary programmes are already available which allow e-mail, for example, to be automatically redirected to a different location on a network.

Many of these applications may seem to have very little in common with traditional telecommunications, but all are dependent on communications links to support them. The communications network will hold them all together but the applications will be limitless.

Other licensed operators: by Eden Zoller

Confidence abounds

The dramatic proliferation of alternative operators points to a buoyant, highly competitive market where demand is strong

A government review of telecommunications policy in 1991 led to the end of BT and Mercury Communication's cosy duopoly of fixed line domestic services in the UK.

The floodgates were thrown open, and by 1995 some 75 licences had been issued for alternative public telecoms operators. The figure now stands in excess of 150, to say nothing of the growing number of international simple resale operators that provide cut-price long-distance services.

This sounds very impressive and is possibly hard to believe given that most people would be hard-pushed to name an alternative to BT and Mercury.

Some might be aware that a growing number of cable television operators offer public voice telephony services. Others might recall some of larger "pure" telephony operators such as long-distance carrier Energis which has made the most visible efforts to draw attention to its services with a television advertising campaign which ran last year. But for most, the vast majority of alternative operators remain an obscure, unknown quantity. The most obvious reason for this lack of general awareness is that with the exception of the cable television operators, the vast majority of alternative operators in the UK focus exclusively on the business community where the usual method of targeting customers is through a direct sales force.

The business community promises the largest rewards for alternative operators. Corporate customers are traditionally high spenders with a large proportion of international calls and a healthy appetite for high-bandwidth, value-added services which produce a higher revenue per subscriber than is available from the residential market.

It is all but impossible for new entrants to compete head-on with BT in the residential market where it has direct links to every home and where prices are already competitive – and becoming more so with a range of special discount packages.

Mercury tried to its detriment to mimic BT in the residential market but has shifted its focus to the business sector. Energis now appears to be doing the same.

Clearly the business sector is price-sensitive, but the returns are better and operators do not have to spend millions building up the high-profile brand names required in the consumer market.

The alternative operators are able to undercut BT in the business market partly because they have a comparatively low cost base, but more particularly because they have state-of-the-art, intelligent networks that are ideally suited to deliver the type of value-added services most valued by corporate sector users, such as videoconferencing, high-speed date transmission, call-handling facilities and premium rate services.

The alternative operators are not constrained by legacy issues when it comes to technology and most have optical fibre networks with synchronous digital hierarchy (SDH) capabilities. Some even boast asynchronous transfer mode (ATM) advanced switching capabilities.

The alternative operators most often have a regional focus, and know their local business community well, with standards which BT would find difficult to match.

The comparatively narrow focus of alternative operators, which quite commonly specialise on niche sectors within the business market, means they are also highly skilled in developing tailored applications for a particular customer with pricing structures to suit their requirements. This can range from Lan-to-Lan inter-

> Costs can vary quite widely, depending on the individual solution

connection to total facilities management solutions.

An example of this specialist, tailored approach can be seen with many of the contracts won by regional operator Torch Telecom, a joint venture between Yorkshire Electricity and Kingston Communications. Its first contract involved the provision of high capacity links between two teaching hospitals for the transmission of video images of operations from operating theatres to lecture rooms.

Torch does not publish a standard price list for its services because costs can vary quite widely, depending on the solution it puts together for a particular customer.

The alternative operators can be broadly divided into those that are facilities-based and those that base services on international simple resale (ISR). Put very simply, ISR operators provide capacity over a network of predominantly leased lines. In contrast, facilities-based operators have their own switching and transmission capacity, while some have direct links to their ultimate customers and therefore side-step BT's network for the last leg of the loop.

Notable alternative operators in this category include Colt and MFS which both offer services in the crowed London market.

Colt and MFS, which are both US backed, have built metropolitan optical fibre broadband networks from scratch in London. Both have national public telephone operators licences and are looking to expand services in other metropolitan centres in the UK. They have already established similar operations in other European centres such as Frankfurt.

Colt is also looking to expand services by joining forces with other regional operators, and in October last year it signed an interconnection agreement with Scottish Telecom under which the two carriers will jointly provide services between London and Scotland.

Scottish Telecom is an example of a handful of regional operators that started life as the internal telecommunications arm of the UK's regional electricity companies. Another notable operator of this ilk is Norweb Communications in the North West. Such operators have something of a head start in that they can use the existing telecoms infrastructure of their parent companies, and have access to their sales channels, an established customer base, a brand name and market awareness.

The ISR operators in the UK are almost exclusively focused on providing cut price international services. First Telecom, an ISR operator which started services last May, claims it can offer the cheapest calls available to the US of about 10p a minute at certain times.

It reckons that in general it can cut the average international BT or Mercury phone bill by about 20-30 per cent. Demand is such that First Telecom has attracted more than 12,000 subscribers since its launch nine months ago. ISR operators traditionally target business customers with international services, although a growing number are turning their attention to the domestic long-distance market. This goes against the received wisdom which says the UK market cannot generate the volumes of calls which ISR operators need to make the thinnest of margins on domestic long-distance tariffs.

The line-up includes the UK subsidiary of Swedish national carrier Telia, ACC Long Distance, Worldcom and News International's Dial 1602 service.

The fact that ISR operators are prepared to tackle the residential sector is a sure sign of confidence in the market. The next six months will see the debut of yet more alternative operators in the UK. AT&T is on the brink of launching its long-awaited UK operation, while wireless local loop operators Ionica and Liberty and also expected to launch services in the coming months.

The dramatic proliferation of alternative operators in the UK since the end of BT and Mercury's monopoly five years ago points to a buoyant, highly competitive market where demand is strong. Customers will benefit from greater choice, flexibility and lower prices. The only danger perhaps is that they might become totally confused.

Torch engineers manoeuvre the mechanism which wraps fibre optic cable around overhead electricity cables

The manufacturers: by Joia Shillingford

Movers and shakers

Research indicates that the market for digital exchanges in western Europe will be $7.9bn in 1996, rising to $8bn in 1999

Providing the equipment for Britain's fixed-wire and mobile telephony infrastructure is a multi-billion pound industry. But who are the manufacturers and how is their profitability affected by the industry's buying cycles?

The market for fixed telephony equipment tends to be dominated by switching equipment, such as digital exchanges for routing calls. Usually, whoever supplies the switching equipment, also supplies the associated electronics.

GPT, a joint venture between GEC and Siemens, is one of the leading suppliers of equipment for the UK's fixed telephony infrastructure. It has particular strengths in digital exchanges with its System X product.

It also offers SDH (Synchronous Digital Hierarchy), a transmission technique for non-voice traffic such as video, data and multimedia. "Demand for SDH is growing strongly," according to Mr Ian Rathmell, an industry analyst at Dataquest.

GPT supplies equipment to both BT and Mercury, the two main companies offering fixed telephony in the UK. Other key participants in the European telecoms equipment market include Ericsson, Siemens and Alcatel. US telecoms giant AT&T has a presence in the British Telecom (BT) network. And there is some equipment from Nortel in the Mercury network.

Cable television companies offering telephone services over their networks tend to use different suppliers from BT and Mercury, such as Nokia of Finland. But they do use GPT equipment. The cabling for both standard and cable TV telephony is supplied by companies such as BICC, Pirelli and Alcatel Cable as well as some smaller suppliers.

According to Dataquest researchers, the market for digital exchanges in western Europe will be $7.9bn in 1996, rising to $8bn in 1999. The market for cable transmission – the equipment which connects exchanges together – will amount to $1.9bn this year and in 1999.

Local loop equipment, which connects the local subscriber to the local exchange, will be worth $600m in 1996, rising to between $600m and $700m in 1999.

Leading suppliers of switching equipment to the mobile network operators include Ericsson, Siemens and Nokia.

"In the market for mobile phone handsets, Nokia and Motorola are battling it out for first place," according to Mr Dean Eyers, associate director of Dataquest. "Then come Ericsson and NEC." Japanese companies such as NEC, Matsushita and Sony are also increasingly successful in the market for mobile phone handsets. Mobile phones are manufactured all over the world, although the majority are made in the Far East. Components (such as sub-assemblies) for mobiles are made all over the world by a wide variety of suppliers.

Mobile phones are manufactured all over the world Fergus Wilkie

Exchange manufacturers have traditionally faced a buying cycle of feast or famine. Once every 20 years, the fixed network operators would upgrade their networks leading to a buying bonanza.

In the 1960s and 1970s, the upgrade was from mechanical to electromechanical exchanges. In the 1980s, digital exchanges replaced electromechanical equipment. The next big move will be from digital to broadband, which will provide larger pipes through which voice-data can be sent. "Broadband will require a smaller number of larger exchanges," says Mr Ian Rathmell, an industry analyst at Dataquest.

Competition in the market for exchanges increased significantly with telecoms privatisation in the 1980s and 1990s, reducing prices. Manufacturers used to make big profits on telephone exchanges, but now make profits on the software that drives them.

This means they make their money towards the end of the network upgrading process, because software is a late-cycle purchase. The software for exchanges is typically proprietary rather then "open". It enables telecoms operators (telcos) to offer value-added services, such as voice mail, or better network management.

Telephone companies mainly buy software from telecoms equipment manufacturers. Or they buy exchanges with the software they want built in.

Software sales are critical to the profitability of telecoms equipment suppliers because in the UK the move to digital exchanges is largely complete. For example, more than 70 per cent of BT lines are digital. Some large electromechanical TXE-4 exchanges are still being upgraded but this process will be finished shortly.

Demand for telecoms equipment is, however, coming from newer network operators such as MFS, Colt, AT&T (which recently entered the UK telephony market), cable TV companies, and fixed-radio-access companies such as Cambridge-based Ionica.

Yet UK demand from these operators is small compared with demand from BT and Mercury at the height of their buying cycles.

"By and large, the UK buying cycle is over," says Mr Jim Ross, telecoms analyst at ABN Amro Hoare Govett.

According to Mr Rathmell: "The trend is for switches and transmission systems to be seen just as boxes (like personal computers). All the facilities are in the software and there is a move towards higher and higher levels of network management being included."

Demand is more buoyant in the cellular network market. In the 1980s, equipment was needed for analogue mobile networks: Tacs (Total Access Communications System) in the UK and parts of Europe; NMT 450 and NMT 900 in the Nordic countries; and Amps (Advanced Mobile Phone System) in the US.

Now everyone is moving to some form of digital network – typically GSM (Global System for Mobile), or PCN (Personal Communications Network), a variant of GSM. This has led to a new investment drive.

Vodafone, one of two UK cellular network operators offering both analogue and GSM networks, spent £800m-900m on its Tacs network. It is now spending £500m-£600m on GSM. (The figure is lower than before because it already has cellular base station sites which can be shared by GSM transceivers.)

Mr Eyers estimates that the UK market for new cellular network equipment is worth $2.5bn excluding aerials.

PCN operator Orange finishes its UK network by next year. And within two years British PCN operator Mercury One-2-One will also have done so. By this time, the digital networks of Vodafone and Cellnet (the other UK analogue cellular and GSM operator) should be complete.

It seems likely that, before long, cellular-network equipment makers too will be turning their attention to software. To succeed, they will have to offer software that enables network operators to increase their revenue per subscriber.

Deutsche Telekom, France Telecom and U.S. company Sprint have now joined forces to create a unique new global communications alliance. For customers who need to operate right around the world, the result will be tailor-made performance of the highest possible quality, on a truly global basis.

Nowadays, companies aren't just selling worldwide: they're also developing, purchasing and manufacturing in a variety of different international locations. Hence the explosion in demand for high-quality global communications. To satisfy this demand, we have pooled the cream of European and American telecommunications resources in a unique three-way international partnership.

In the words of the U.S.A.'s Forrester Research Institute: "Together, Deutsche Telekom, France Telecom and Sprint form what is probably the strongest alliance in the world." They go on to highlight our common vision, compatible products, virtually complete international coverage and vast combined experience in network technology.

In short, this alliance promises unrivalled professionalism and integrated expertise. Indeed, from the start, some 2,100 specialists in more than 50 countries will be putting their global network skills at the disposal of companies who need to be able to communicate right round the world.

Together with France Telecom, we have set our sights on revolutionising international communications in the world's single largest market place: the European Union. France Telecom can boast outstanding performance and many years' experience in the field of global data services. While, as a serious performer in all the major international markets, Deutsche Telekom offers not only the densest fibre optics network in Europe but also satellite capacity from all the leading operators, not to mention top quality connections, particularly to Eastern Europe. With Sprint joining the partnership, we can now add a truly global dimension to our pioneering work in Europe. As a major international company in its own right, Sprint will contribute both its own domestic networks in the U.S. and its excellent connections in the Pacific Rim.

Deutsche Telekom – you couldn't be in better company for the future. Deutsche Telekom is Europe's No. 1 telecommunications company – and the second largest network operator in the world. In Germany, we have the largest ISDN network, the densest fibre optics network and the most extensive broadband cable network: and all three are accessible on the world's most sophisticated Infobahn.

Add the resources of our new worldwide consortium and you have an international communications capability which cannot fail to benefit your business.

Our connections move the world.

Deutsche
Telekom

DANISH BANKING AND FINANCE

In leaner and meaner shape

The industry has emerged from the recession and seems well-placed to take on Nordic rivals. This survey was *written* by Hilary Barnes

The Danish banking and finance industry has emerged from the economic and financial turbulence which swept through the Nordic countries in the early 1990s in meaner and leaner shape. Earnings in 1995 were better than at any time for the past 10 years.

However, Danish bankers insistently point out that the crisis in Denmark was not on the same scale as it was in the other Nordic countries. No major bank collapsed. No state money or promise of state money was necessary to prevent collapse, although many smaller and some medium-sized institutions disappeared, most of them to be rescued by stronger colleagues within the industry.

In the meantime, profound changes have taken place in the financial services industry as a whole. There has been a big shake-out in insurance. The big banks have emerged as important participants in the mortgage credit and insurance markets, turning them, according to Mr Thorleif Krarup, chairman of the Danish Bankers' Association and chief executive of Unidanmark, into true universal banks in the central European tradition.

The past year has also seen several other landmark developments in the financial services sector. Among these, the most important are:-

- The completion of the shake-out in the insurance industry, which began in 1992-93, when the country's two largest insurers at the time, Baltica and Hafnia, collapsed.

Hafnia was bought up by Codan, the Danish company controlled by the UK's Sun Alliance. Baltica was rescued by Den Danske Bank, which also, although this was not the bank's intention, ended up owning Baltica. Last year, however, it sold off most of Baltica's accident and all of its commercial insurance to Tryg (renamed Tryg Baltica), but Danske retained the life and pension division, Danica, and the accident business of Danica's life and pension customers.

- A third large bank, big enough to offer serious competition to the existing big two, Den Danske Bank and Unidanmark, was created through the merger of Bikuben, the flagship of the savings bank movement, and GiroBank to form BG Bank. BG Bank is closely allied through equity cross-holdings to Topdanmark, the insurance company, and Nykredit, the mortgage credit institution.
- The two biggest banks in Denmark are setting up branches in other Nordic countries, defining the Nordic area as part of their future "domestic" market. This follows the example of the other large Nordic banks, which are all invading each other's patches.
- A major reform of the Copenhagen Stock Exchange, a consequence of the implementation of the EU's Investment Services Directive, was put into place at the beginning of this year.

The recovery in the fortunes of the banking industry – paralleled in the mortgage credit and insurance industry as well – has been sustained by the recovery in the Danish economy itself. After six years of near-stagnation, a rapid improvement began in mid-1993, and the growth in real gross domestic product shot to 4.4 per cent in 1994, followed by about 3.5 per cent in 1995.

As a recent OECD report on Denmark noted, the recovery is more soundly based this time than was the 1980s recovery. Inflation has remained low, at only about 2 per cent in 1995; the current account of the balance of payments is in comfortable surplus; and the general government budget deficit last year, at DKr17bn, was about 1.5 per cent of GDP, according to the most recent estimates by the government.

The two big Danish banks - Den Danske Bank is the largest – have entered the mortgage credit and insurance markets, becoming universal banks in the European tradition *Tony Andrews*

The krone, which participates in the European exchange rate mechanism, was battered by the events which led to the collapse of the ERM in 1993, but the exchange rate has again been stabilised against the D-mark, and last year there was a *de facto* appreciation of the trade-weighted exchange rate by some 4 per cent. Interest rates fell sharply through 1995, in line with developments elsewhere in Europe, and this spring the discount rate has been lowered to 3.75 per cent, its lowest since 1946.

Unfortunately for the banks, falling interest rates have not so far done much for bank lending. However, after declining for several years, lenging rose by about 3.6 per cent in 1995. That the banks emerged from last year with their earnings much enhanced, despite weak demand for credit, was due primarily to two factors: gains in the value of their portfolio of bonds and shares and a further decline in bad loss provisions from the exceptionally high levels reached in 1992-93.

Under Danish accounting law, a change in the value of a securities portfolio – whether a gain or a loss – is entered into the profit and loss account fully in the year in which it takes place. (The same goes for all property owned by the banks, which must be booked at the estimated market price at the end of each year.) For this reason, the bottom line figures have a tendency to show extreme variations in accordance with the state of the bond and share markets. The banks have, on the other hand, nearly all reported lower net financial income (excluding the valuation gains) in 1995, which is a cause of concern to the banks as well as to Mr Eigil Molgaard, the head of the Finance Industry Supervisory Authority.

"The banks are not earning as much as they should from their basic operations, and this is a problem," he says. Denmark is a many-banked country, with around 150 banks, savings banks and co-operative banks, most of them very small. Competition is keen, and has been driven by the establishment of an array of niche banks, including some which offer simplified services and low costs. Traditional banks are also facing competition from banks established by the insurance companies and from international competition, including Nordic rivals.

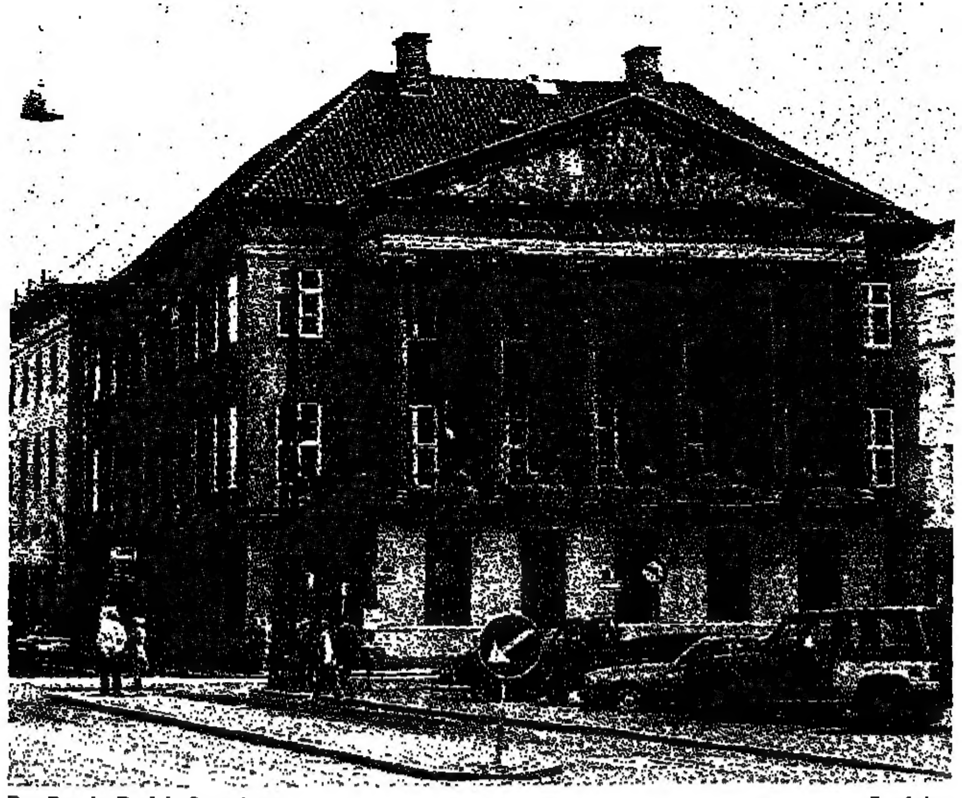
Margins on business with larger companies are now particularly thin, the banks complain. Small, one-town banks, on the other hand, whose customers are mainly small businesses and private individuals, continue to do well and are gaining market share. The biggest banks are meeting the challenge by diversifying into mortgage credit and insurance services, a strategy which was commended in a recent report on the Danish banking industry by Moody's, the rating agency.

On the costs side, the banking sector shed 7,000 employees between 1989 and 1995. The number of bank branches declined from 3,250 to 2,225, and the number of customers per bank branch rose from 1,580 to 2,350, according to figures supplied by Unidanmark. The main force for change was the 1990 merger of the six largest banks into today's two largest banks, Danske and Unidanmark. This set the scene for a rapid rationalisation of the branch structure, and is also reflected in the market share of the two largest banks, which is now 54 per cent compared with 28 per cent in 1989.

The 1989 mergers and subsequent developments have left the large banks in a strong position, both domestically and by comparison with their international counterparts. A study of the ratio of costs to income among the largest European banks by UBS puts the Danish banks at the top end of the list, with only the Swedish banks ahead of them.

The Big Three Banks' results in 1995

Figures in DKr bn	Danske Bank	Unidanmark	BG Bank
Assets	390	255	149
Profit on financial operations	12.07	10.28	7.04
Operating expenses	5.81	5.61	4.22
Loss provisions	1.25	1.24	0.73
Operating profit	6.03	2.95	1.88
Net profit	3.53	2.10	1.68
Equity capital	23.10	15.10	6.10
Return on equity (%)	27.8	20.5	32.5
Employees	11,514	10,503	6,377



Den Danske Bank in Copenhagen — Tony Andrews

■ Den Danske Bank

More dust than dirt

Newspaper leaks have put the bank in the spotlight. But it has emerged virtually unscathed

Den Danske Bank, the country's biggest, has been put through the wringer by the local media over the past few weeks, but Mr Knud Sorensen, the bank's chief executive, does not look like a worried man. Perhaps that is because he has just presented one of the best bottom-line results that the bank has ever had. Interviewed in his office in the 18th century mansion in the heart of Copenhagen, where the bank has its headquarters, Mr Sorensen admitted that a series of articles in the respected national newspaper, Jyllands Posten, last month "has scratched our image," especially "with those Mr and Mrs Hansens who only read the headlines".

The articles were sufficiently sensational to cause a brief fluttering among the country's politicians, too, but some initial calls for new controls and more stringent regulations on the banks quickly sputtered out once the politicians looked more closely at the newspaper's revelations.

The newspaper somehow obtained a pile of internal documents from the bank, including the minutes of supervisory board meetings. This enabled the paper to put its finger on some sensitive issues and offered some intriguing insights into the internal working of the bank. But if the source of the leaks (who, says Danske, can only be either a senior official or a former senior official of the bank) hoped to do serious damage to the bank, the person did not succeed. He (or she) stirred up some dust, but no real dirt, and the bank put up a stout defence in a detailed, 12-page reply to the critical articles.

The burden of the articles was that Den Danske Bank, in a number of cases, acted in conflict with good banking practice, unethically, and possibly also in contravention of banking law.

The articles revealed that the bank gave A.P. Moller, the Danish shipping group, an "unlimited guarantee" in 1989 for damage claims against eight ships. The bank was said to have run unacceptable risks by providing large loans to two large insurance groups in 1992, when they were engaged in a battle over the future structure of their industry.

Most seriously of all, the newspaper alleged, the bank seemed to have withheld information about the state of one of these insurers, Hafnia, in connection with a DKr1.9bn new share issue by Hafnia in July 1992, a month before Hafnia went into receivership.

Documents from the bank showed that there was a vociferous internal discussion within the bank about internal security controls in the bank's foreign exchange and securities dealing departments, which led Jyllands Posten to wonder whether the bank was the model of safe and secure banking which most Danes supposed it to be.

Finally, when the guarantee to A.P. Moller was given, the minutes of a supervisory board meeting showed that Mr Poul Svanholm, chairman of the board, had participated in the discussions, though he was a member of one of the main boards in the A.P. Moller group. This was a breach of the rule by which board members may not be present when issues involving the interests of companies in which they are personally involved are under discussion. To this latter point, the bank responded by announcing that rule and practice would be tightened up to ensure that there would be no similar contravention.

> It was the only bank strong enough to shoulder this responsibility

This was the only point that Danske conceded to its critics. It rejected the rest as unfounded. The "unlimited guarantee" was a formality, demanded by the buyer in a sale and lease-back deal. It covered eight vessels, of which five were offshore oil platform supply vessels, one a roll-on, roll-off freighter and two were medium-sized product tankers. They were not crude-oil carrying supertankers, they did not sail in US waters; and they were fully insured. The guarantee was unusual enough to have aroused the interest of the Finance Industry Supervisory Authority, but the supervisors did not demur when the guarantee was booked at a value of £1 by the bank's London branch.

The newspaper's criticism of the Hafnia share issue caused a bevy of lawyers to declare that the articles were damaging enough to form the basis for a claim for compensation by investors, but the murmurs against the bank did not long survive its detailed refutation of the allegations.

The irony of the attack on the bank in connection with the problems at Hafnia and Hafnia's domestic combatant, Baltica, was that Danske Bank was heavily involved in preventing the collapse of the two insurance companies turning into a fully-fledged crisis for the whole financial service sector in 1992.

It was the only bank strong enough to shoulder this responsibility. Had the newspaper been able to show that Danske had flouted the advice of the supervisory authority, or kept the supervisors in the dark, there would have been a genuine scandal, but this was not the case, and Mr Eigil Molgaard, head of the supervisory authority, said in a televised interview that Danske was, seen from his seat, the "perfect bank". "Surely, no one can be perfect?" asked the interviewer. "Yes, they can, relatively speaking," countered Mr Molgaard.

One of the consequences of the crisis at Hafnia and Baltica was that Danske took effective control of Baltica in 1993. It was not, at the time, the bank's intention to hold onto Baltica, but for various reasons it was not possible to sell.

Finally, last year Baltica was broken up. The life assurance group owned by Baltica, known as Danica, was retained by Danske, together with the accident insurance business of Danica's life and pension customers. The remainder of the business, including the industrial and commercial insurance, was sold to the former mutual group, Tryg, known now as Tryg Baltica, which emerged as the country's largest accident insurance group, though Danica is bigger in life assurance. Danica is not consolidated into Danske Bank.

If it were, Mr Sorensen noted when he presented the 1995 accounts, the group would have total assets close to DKr500bn. With its insurance business and rapidly expanding mortgage credit subsidiary, Danske's strategy in the domestic market is well-established. It is also expanding into the Nordic markets by setting up in the Nordic capitals.

"We already have close co-operation with a large number of Swedish companies, but we want to expand the circle – go a spade's depth deeper," says Mr Sorensen. Meanwhile, stiff competition is holding down earnings from basic financial business, which places the focus on costs.

There will be no further staff cuts involving redundancies, as there have been over the past few years, says Mr Sorensen, but over time he can see employment falling from just over 11,500 to 10,000. His aim, he says, is gradually to improve the ratio of normal operating income (DKr10.37bn in 1995) to costs (DKr6.32bn) from last year's 1.60 to 2.00, helped by new technology, the growth of new business and economic good sense.

■ The economy

Concern at weak demand

The government expects a second-half recovery this year. But it may be disappointed

A recent OECD report on Denmark summed up the state of the economy neatly when it said that the macroeconomic fundamentals looked sound, but the microeconomic underpinnings were less satisfactory.

The latter comment is a cause for longer-term concern. The immediate worry is that demand may weaken significantly in 1996 after two years of satisfactory GDP growth.

The GDP growth rate was 4.4 per cent in 1994 and about 2.5 per cent in 1995 (the first full-year official estimates were still awaited at the time of writing).

Most of the indicators, including exports, industrial production, and employment, show that the economy has stagnated since the early summer of last year, and neither the domestic outlook nor the outlook in Europe points to a strong rebound this year. At the end of last year the government forecast a GDP growth rate in 1996 of about 3 per cent, but Unidanmark's economists this month predicted a growth rate of only 1.75 per cent for this year.

However, reductions in short-term interest rates – the discount rate was reduced to 3.75 per cent on March 8, its lowest level since 1946 – encourage the government to believe that the economy will recover again in the second half of 1996.

Another current concern is how Denmark will handle the situation if the Emu Phase 3, with a common currency, is implemented according to plan. Denmark is in the paradoxical situation that on present form it will quite easily meet the Maastricht convergence criteria for participation in Phase 3, but the country has obtained an opt-out, and cannot opt in without holding a referendum, sure to be highly-charged, on the issue.

The government's official position is that if and when Emu Phase 3 is implemented, Denmark must obtain an agreement with the participating countries for a mechanism which can replace the present European exchange rate mechanism for those countries which cannot or do not wish to join the Emu. But Professor Niels Thygesen, the Danish monetary policy expert who was one of the architects of the Emu proposal, has pointed out that Denmark may find that the other non-participating countries, among them the UK and Sweden, have no interest in an alternative ERM arrangement.

For the time being, in any case, Denmark's future relationship with an eventual common currency area is unresolved.

Meanwhile, many of the fundamental indicators show the economy to be in a sound condition. Inflation is about 2 per cent; the trade and current balance of payments accounts are in substantial surplus; and the general government budget deficit in 1995 was about 1.5 per cent of GDP. The OECD also noted that, in contrast to the recovery which began in 1982, household and corporate financial balances have remained healthy, with domestic demand growth based on strong productivity and earnings growth.

One of the indicators which looks less satisfactory is unemployment. The official figure has fallen to 9.1 per cent at the latest (seasonally adjusted) count for January from 12 per cent two years ago. Unfortunately, the unemployment figure is not a reliable indicator of the state of the economy, the reason being that it is strongly influenced by a variety of schemes which withdraw people from the labour market, including a generous programme which enables both the employed and the unemployed to "go on leave" for between six months and a year while receiving 80 per cent of the maximum unemployment benefit.

This extremely popular scheme temporarily withdraws about 2.5 per cent of the workforce from the labour market, the OECD estimates. In the final quarter of last year, the leave-from-work programme produced a strange paradox: both employment and unemployment were falling.

The official Statistical Office now publishes quarterly figures which give a broader overview of the unemployment situation. To the official unemployment figure it adds those who are participating in labour market "activation" programmes of one sort or another and those who have been withdrawn from the labour market through leave-from-work programmes and early retirement. The total in the third quarter came to 18.9 per cent of the labour force, and since this figure does not include all categories of those who have taken early retirement, it can be argued that the real total is even higher.

Some 1,900 employees work in R&D activities at Novo Nordisk's laboratories in Bagsvaerd. But for every 10 people working in the private sector, some 17 are either in public service or on social security

All in all, at any given moment almost one person in every five of working age will not be working but will be living off social security of one category or another. When retired people of over 67 are added to the total, more than two in five people are financed through the social security system. Altogether, the OECD estimates, 57 per cent of the adult population received some form of social security in 1993 (some of them, however, receiving rent subsidies or other hand-outs which are also paid to people in work).

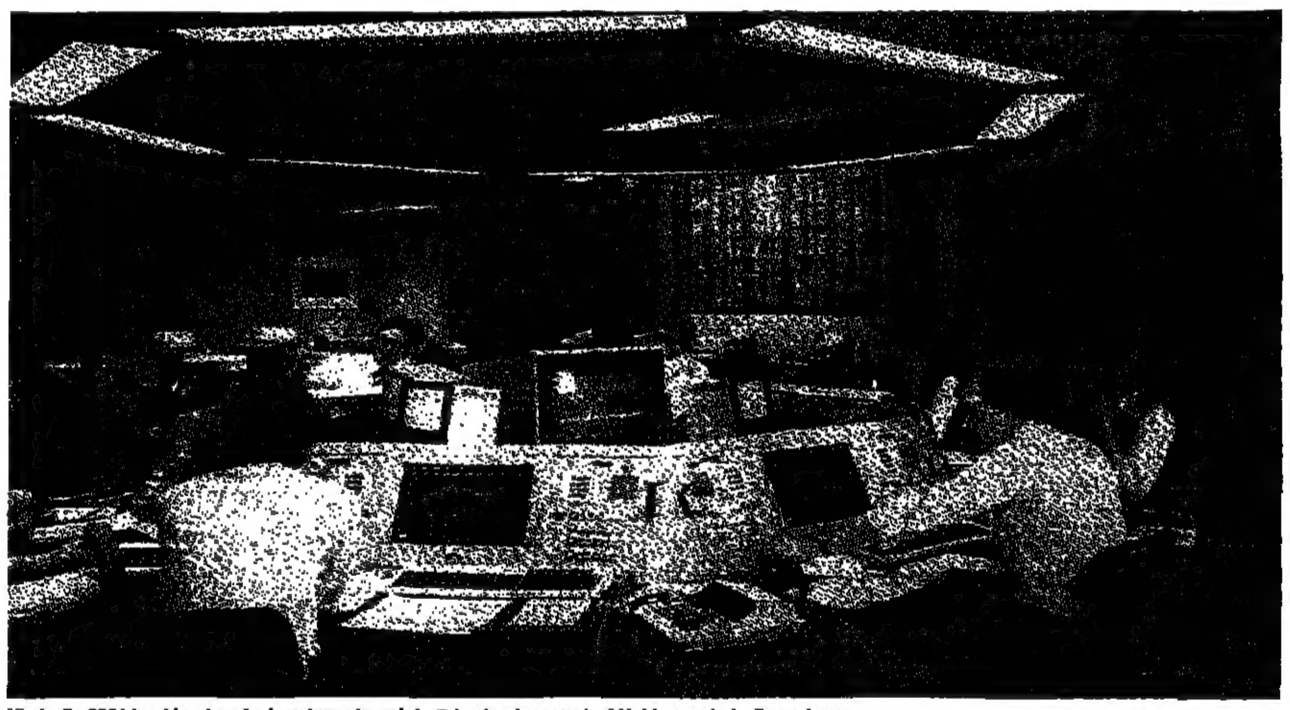
There is also a large segment of the population employed in the government sector, which accounts for about 33 per cent of employment, so that for every person working in the private sector, there are 1.7 persons either working in the government sector or living on social security. Only one other country, Sweden, has a higher ratio at 1:1.8.

The country's productive export industries, including a significant food-exporting agricultural sector, and the population's readiness to pay high taxes (57 per cent of GDP at factor cost in 1992, according to the OECD), are currently sustaining an economy which is stable, if not very dynamic. But it is perhaps not surprising that the OECD report strongly urged the government to take measures that would encourage people to seek off jobs rather than rely on social security, expressed doubts about the sustainability as well as the efficiency of the present welfare system, and warned of a "clear danger of welfare dependency becoming ingrained in society".

■ The supervisory authority

There's no need to crack the whip

Why the banking sector's problems were not as serious as those of other Nordic countries



Nixdorf's 8864 banking terminal system at work in Privatbanken, part of Unidanmark, in Copenhagen

The horsewhip hanging in the office of Mr Eigil Molgaard, who will be retiring this year after 14 years as head of the Finance Industry Supervisory Authority, has absolutely no symbolic significance, he insists. As for the hand grenade which decorates a shelf, its uses may come to mind in moments of extreme provocation, but, he points out, it is safely disarmed.

Moments of stress and frustration are something that Mr Molgaard has had to live with. In his time as chief supervisor, he has helped to close 102 banks and other financial institutions and treated another 35 for acute crises. Nearly all of this took place in the period 1987-93, when a long recession, weak demand for credit and falling asset prices took a heavy toll.

"Banks are only as healthy as their customers," Mr Molgaard says. He calculates that institutions with an accumulated balance sheet total of about DKr800bn, or one third of the total assets of the financial services sector, required the attention of the supervisors during the six-year recession period. The problems were contained. They never became as serious as those which hit other Nordic countries. Mr Molgaard does not hesitate to ascribe this to the long-standing activities of the supervisors, which have always acted on the principle that prevention is better than cure.

As a result of the supervisors' insistence on strong capitalisation and adequate loss provisions, no major bank collapsed. "They were able to take the losses on their reserves and not their equity capital," he says. Banks which were closed were, with only a handful of exceptions, taken over by stronger colleagues, operations in which the supervisors were invariably involved, though in a few cases the assistance of the government and the central bank was also required before things fell into place.

There have been two or three cases of actual bankruptcies, but only in small banks. Shareholders and bondholders have in several cases lost their investments, but depositors have not. They are protected by a depositor guarantee system, which is law-based but financed by the banks collectively. The guarantee covers deposits up to a value of DKr250,000.

The serious problems in the financial sector in the early 1990s have produced a number of changes, some implemented and some still to come, in the supervisory regime.

Less happily for all concerned, a handful of the rescue operations led to political ructions. The scourge of the supervisors is Mrs Kirsten Jacobsen, a member of the Folketing for the populist right-wing Progress party, who blames every "crisis, crash and scandal" in the finance services industry over the past few years on the supervisors, "who did not supervise properly and did not take preventive action in time," to quote one of her recent outbursts.

Politically-instigated inquiries are now taking up a lot of the supervisory authority's staffs' time. It is ironic, Mr Molgaard notes, that this should be his fate and that of his staff, while not a word is heard about the directors responsible for running banks into the ground.

> Abroad, the authority is respected but it has been hit by political attacks

In the case which has caused most of the trouble, when a small Jutland bank called Himmerlandsbank was taken over by Sparekassen Nordjylland in August 1994, ministers, civil servants and the supervisors came under fire for having stretched the legal elastic regarding a tax write-off for Sparekassen Nordjylland too far.

The Danish supervisors have always enjoyed the respect not only of the Danish banks, but of their peers abroad, and this has not changed. A report by a committee of neutral experts on the financial services industry last year had only praise for the supervisors, Mr Molgaard notes. Abroad, the Danish Supervisory Authority – which is unusual in that it covers the entire financial services industry from banks through insurance and mortgage credit to the securities markets – was one of half a dozen at which the Bank of England looked carefully in the process of assessing its own supervisory performance in the wake of the Barings collapse.

Mr Molgaard believes that his institution has retained the respect of the banks, but the political attacks "may have damaged us with the press and public, and this is something we are very sorry about". Mr Thorkil Krarup, chairman of the Bankers' Association, backs Mr Molgaard against the political critics. "They ought to give credit to the supervisory authority for doing an excellent job," he says.

The means available for assisting troubled banks have already been improved in several ways, while legislation is under way which will make further improvements, as well as enhancing the role of the supervisors. An important change, made in 1994, enables the Deposit Guarantee Fund to use its resources to assist in the rescue of a bank if the costs to the fund of doing so will be less than that of bailing out depositors if the bank is liquidated. This option was in fact used by the fund in the case of a small bank last year.

The Danish Bankers' Association and the supervisors have also co-operated in the initiation of a key figures self-assessment system, which is designed to strengthen the individual bank's awareness of its risks and potential weaknesses. The supervisors provide average figures for the sector, which the banks can measure their performance against, but it is up to the individual bank to decide whether to publish its own key figures.

If a bank does publish the figures, it must do so continuously. That is, it is not allowed to suspend publication if the figures become less favourable. Of the larger banks, only Jyske Bank has so far chosen publication. Changes under discussion in the Folketing (parliament) will allow the supervisors to order a payments suspension (a kind of Chapter 11 measure) instead of immediate compulsory liquidation, giving a breathing space to consider rescue models.

The supervisors will also be given the financial and staff resources needed for their extended supervisory functions, says Mr Molgaard. These activities will include visits to the foreign branches of Danish banks, which hold around 30 per cent of the total assets of the banks; follow-up inspections, to ensure that recommendations made by the supervisors in their normal inspection reports, which take place at three-year intervals, have been implemented; and more frequent inspections.

Mr Molgaard's valedictory advice to the banks before he switches to an advisory job at the Ministry for Business and Industry in July, is: "Stay vigilant, and don't give easy credit or go soft on provisions policy just because earnings improved in 1995. It is in the good times that the mistakes are made which lead to problems when times are not so good."

■ The small banks

Personal contact preferred

The minnows are flourishing, while their large rivals are closing branches

Denmark is a country of many banks, although it is usually only a few large ones which make the news. There are about 300 of them, including savings and co-operative banks, many of them tiny village banks.

Mr Jan Kondrup, managing director of the association of local banks, which has 120 members, does not expect the situation to change very much in coming years.

He has some cause for optimism. First, 20 years ago it was widely assumed that the costs of installing information technology alone would eliminate the small banks.

However, while some have disappeared, the small banks still flourish, and it is the large banks whose numbers have declined most dramatically.

Indeed, the small banks are more than holding their own. In 1994, they achieved a small increase in their lending to the public while that of the seven biggest banks fell by 14.4 per cent. The small banks' average performance was also better on virtually every count than that of the big banks, including core earnings per krone of costs and return on equity capital.

The small banks increased their market shares in spite of steep increases in bank charges. Core earnings (profits before adjustments for realised and unrealised portfolio losses and extraordinary items) as a return on equity capital last year averaged 18 per cent in the small banks compared with 10 per cent for the big banks.

The members of Mr Kondrup's association have a market share of loans and deposits of 11-12 per cent, or, measured by equity capital, 16-17 per cent.

Most small banks serve a single town, though some have a wider catchment area. Many have only one or two branches in addition to the main office.

"We have the wind in our sails at the moment," said Mr Kondrup. "The big banks are reducing staff and closing branches. We are not. Our members are opening new branches, *and this was* reflected in an increase in the banks' costs last year."

> 'We have the wind in our sails at the moment'

For all the banks, however, the general outlook is much better after several hard years. "We can only be optimistic at the moment. With bad loss provisions falling, basic operating profits should be even better in 1995."

Mr Kondrup puts the survival of the small banks down to the very Danish way in which the banking industry has successfully combined co-operation on infrastructure with competition for business.

There is one clearing system for all the banks. It does not only clear cheques. There is a single, national charge card system, the Dankort. The cards are issued by the banks to their customers and can be used in cash dispensers and at retail outlets all over the country. Card transactions are cleared through the PBS, *which means that a small bank* in remotest Jutland gets the same benefit from the system as Den Danske Bank.

There are three central data processing centres, to one of which all the banks are linked. Bank statements are sent out to customers on behalf of the small banks directly from the data centres. "The common infrastructure is a feature which is unique to the Danish system. It enables the small banks to obtain many of the same economies of scale enjoyed by the bigger banks," says Mr Kondrup.

There is no bad feeling between the big and the small banks. "There is a good tone between us. It is not as if the big banks are lying in wait to gobble us up," he said. The small banks are, in any case, well protected against hostile take over by their share ownership structures.

Mr Kondrup says that hostile takeovers are "not relevant" to the situation in Denmark. Mergers are invariably effected through voluntary arrangements. The banks also co-operate over education and training and to some extent in marketing.

The banks have a jointly-owned educational centre, which lays on training courses for the small (as well as the big) banks, which do not have to carry the costs of in-house training programmes.

Among local banks which do not compete locally there are networks for carrying out joint marketing campaigns, by which the costs are shared. Many of the staff functions which the larger banks must have – market analysis, legal services, lobbying – are carried out on behalf of the small banks by the association of local banks, which again *enables the small banks to* obtain some of the benefits of economies of scale.

The tradition of co-operation and common infrastructure would not be of much help, of course, if the customers did not choose to use the small banks. "The fact is, the customers want us," says Mr Kondrup. He attributes this to the local banks' facility for taking quick decisions, their commitment to local business and their familiarity with the people and businesses they serve. "The use of local banks is determined very much by tra*dition and I don't think it will* change. We may see some further concentration in the banking industry, but we shall not see any more megabanks," claims Mr Kondrup.

Nor does he see the spread of new information technology as a greater threat to the small banks than to big ones. "Information technology will advance, and the banks will have to adapt accordingly." Smallness may even be an advantage. "We are able to adapt more easily and quickly to a changing situation than the big banks."

He suggests that the advance of information technology, which will eliminate many jobs still handled manually, could coincide with a counter-movement to give people greater prominence. "Flesh and blood want advice from flesh and blood. For us, closeness to the customer is an advantage. We know the people we are talking to, and for a bank it is very important to know the local customers. Buying bank services is not like buying tea or sugar. What matters is the quality, and quality is what you get when you visit your bank, which gives you support in bad times as well as good."

PROFILE Unidanmark

Aiming for a bigger base

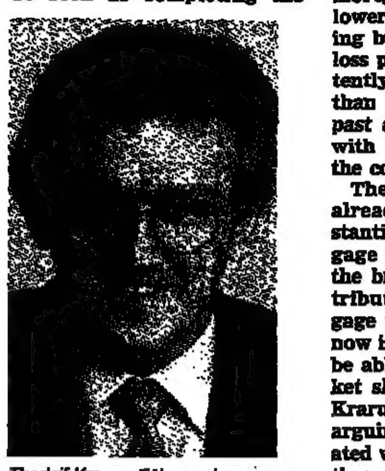
"We have seen sound development over the past couple of years and there is no serious risk of banks going down," says Mr Thorleif Krarup, chief executive at Unidanmark and current chairman of the Bankers' Association, in his headquarters office, a grey concrete edifice, known locally as "the desert fortress".

Mr Krarup came to Unidanmark three years ago, after it had slumped into a 1992 loss of DKr466bn as loss provi*sions soared to DKr6.28bn*, 4.7 per cent of that year's loans. In 1995 the bank made a DKr2.17bn ($533m) profit, with provisions down to DKr1.24bn, or just under 1 per cent of loans.

He describes the first years as those "when we had to roll up our shirt-sleeves. Now we are trying to see whether we are wearing the right shirt."

Employment at the bank fell from 13,020 at the end of 1991 to 10,500 today and is expected to drop to 10,000 by the end of 1996. With a satisfactory 1995 result under its belt, the bank has announced an offensive strategy. It has concluded an agreement with the mutual insurance company, Ostifterne, to form a company in which Unidanmark will hold 60 per cent of the capital to Ostifterne's 40 per cent, to market insurance policies through the bank's branches. The bank will open a branch in Stockholm this year and plans to open in Helsinki and Oslo later on.

Internal reforms of the way the bank works are also being implemented. Two main strategies are being followed. Firstly, there is a policy of relieving bank staff, whose main job is face-to-face contact with customers, of administrative duties. The second strand is to unify administrative routines in the bank's 400 branches. This can be seen as completing the



Thorleif Krarup: "We can become a Nordic player as well as a Danish universal bank"

merger of Privatbanken, SDS and Andelsbanken, the three banks which pooled their resources to create Unidanmark in 1990.

As chairman of the Danish Bankers' Association as well as chief executive of Unidanmark, Mr Krarup is as happy philosophising over the future of the banking industry as he is over the progress which his own bank is making. He predicts that the involvement of the big banks in mortgage credit and insurance business will tend to enhance the already strong position of the biggest banks.

Within a relatively short period, he believes, half the loan assets of the big banks will be in the form of mortgage credit. As losses on mortgage credit are much lower than on ordinary banking business, the banks' loan loss provisions will be consistently lower in coming years than they have been in the past and will compare better with the provision ratios of the continental banks.

The two big banks are already taking a very substantial share of new mortgage business by exploiting the branch network as a distribution channel for mortgage products. "The question now is whether the banks will be able to win a similar market share for insurance," Mr Krarup says. He is optimistic, arguing that the costs associated with selling a new policy through a bank branch are a small fraction of the cost to an insurance company of selling through its agents.

Although Denmark came through the crisis of the early 1990s relatively lightly, a number of banks collapsed and had to be taken over by stronger colleagues. Some of these cases ended messily, with losses not only to shareholders but also to bondholders, though not to depositors. This phase is over, Mr Krarup thinks. He considers that the pressures on the banks, which are without exception well-capitalised today, will come less from threats to their solvency as from inability to reward shareholders.

In the past the banks typically had a large number of individual shareholders, but institutional investors played no significant role. This has changed as pension funds and life assurance companies have built up positions in the banks. The institutional investors will insist on getting a decent return. "We won't see banks fail, but we shall see banks being sorted out according to their ability to provide a satisfactory yield on their equity capital."

Those which cannot live up to investors' expectations will be forced to consolidate or see themselves absorbed by better managed banks, he says. Unidanmark's decision (in which it is, chronologically at least, following the example of Den Danske Bank) to set up in the Nordic capitals, says Mr Krarup, has to be seen in the light of the international integration of the financial markets and the problem this poses for large banks in a small market.

"Looking 10 years ahead, the problem is that the Danish market is small. If we are to compete, we must have a bigger base, so we have defined the Nordic market, with a population of 23m, as our domestic market. We are starting a process by which we can become a Nordic player at the same time as we shall be a Danish universal bank," says Mr Krarup.

■ BG Bank

Good start for third force

Unlike its two bigger competitors, the bank's strength depends on an alliance

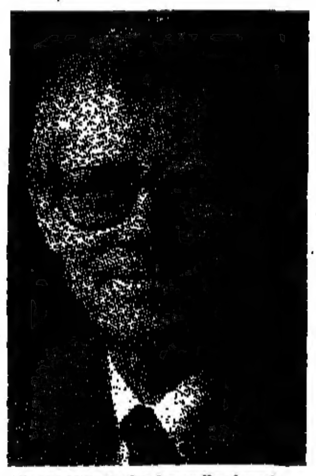
BG Bank is the new name of a third force in Danish banking, formed by the merger of Bikuben and GiroBank, which believes it has sufficient size to be able to compete with the big two, Danske and Unidanmark. However, BG's assets of about DKr150bn are less than half Danske's and not much more than half of Unidanmark's.

But both by virtue of its ownership structure and its business structure, BG Bank is a bank to watch in the next few years. Like its two larger rivals, BG Bank aims to become a universal bank, also offering mortgage and insurance, but while Danske and Unidanmark own or dominate their own mortgage and insurance companies, BG Bank's concept is based on an alliance, and the strongest part in the alliance is Nykredit, the mortgage credit group.

Nykredit owns 15 per cent of the equity in BG Bank. It also owns 14 per cent of the equity in Topdanmark, the insurance leg of the alliance, while Top and BG Bank own 10 per cent in each other. Nykredit's position in the alliance becomes immediately apparent by virtue of its financial power.

Nykredit's equity capital at the end of last year was DKr20.8bn, only slightly less than Danske Bank's. BG Bank's equity is DKr6.1bn. Nykredit also has substantial holdings in two medium-sized regional banks, 11 per cent in Sydbank, which serves southern Jutland, and 9 per cent in Sparekassen Nordjylland (Spar Nord), serving northern Jutland.

With assets respectively of DKr37bn and DKr19bn, Sydbank and Spar Nord are the fifth and sixth ranked banks by balance sheet total. These two come in the category of banks which analysts in both Denmark and outside believe will have difficulty in maintaining satisfactory earnings over the next few years, on the grounds that they are too small to sustain the costs of being full service banks, but too large to thrive on the customer loyalty which enables small town banks to flourish.



Bjarne Wind, the board's deputy chairman: "The merger gives us real synergies"

Henrik Thufeson, formerly chief executive of Bikuben, is now chief executive of BG Bank

Mr Munk Rasmussen replies with a broad grin when one suggests to him that Nykredit's shareholding in the three banks has interesting perspectives. "We shall have to see how things develop," he says. But just in case the alliance should develop into something more intimate, Nykredit is planning a stock exchange listing, probably in 1997. This will not be to raise capital, but in order to give Nykredit a market value, which would facilitate a merger with BG Bank – or any other financial services company.

BG Bank's business structure is also interesting. Bikuben was the largest of banks which were, by origin, savings banks (since 1974, banks and savings banks have come under legislation which does not differentiate between the kinds of business which each may carry out) and has 250 branches nationwide.

GiroBank was originally the cash transactions division operating the Post Office's giro transfer system. It continues to manage the giro system for the Post Office, but was hived off as an independent full-service bank in 1991. "The merger gives us real synergies, and not just benefits arising from rationalisation," says Mr Bjarne Wind, deputy chairman of the executive board.

Most significantly, through the contract between the bank and the Post Office, BG Bank's customers can conduct banking business at post offices, which means that BG Bank has a total of 1,500 outlets, or three times as many as any other bank.

Unlike banks, post offices are open on Saturday mornings and they open an hour longer than the banks on weekdays. Simple banking business can already be transacted at post offices, but there is more to come. BG plans to open 75 full-service branches at post offices, adopting the shop-in-shop principle to differentiate clearly between post office and bank. There are interesting opportunities in exploiting the customer base of the two banks as well.

"This is a cost-effective way for us to reach post office customers," says Mr Wind. Giro is very well-established in Denmark (and the other Nordic countries), which means that through the system, BG Bank has contact with virtually every business in the country, as well as 500,000 private giro account holders.

On its own, GiroBank built up a substantial portfolio of business customers, but it did not have the resources to give them the attention they required, says Mr Wind. But together he believes that Bikuben and GiroBank will provide a strong service organisation to business customers, and the bank's plan is to build up its business customer portfolio in competition with its two big rivals.

BG Bank was established with effect from October 1, but its 1995 accounts cover the group for the whole year. The bank reported a net profit of DKr1.68bn compared with a 1994 (pro forma) loss of DKr1.6bn. The securities valuation item gave a loss of DKr1.7bn in 1994 and a gain of DKr884m in 1995, a total swing of DKr2.6bn. Loss provisions were reduced from DKr1.06bn to DKr738m, and expenses were reduced from DKr4.47bn to DKr4.22bn.

Net profit as a return on equity capital was 29.1 per cent, but it is a level which reflects the portfolio value adjustment and is not indicative of returns to come. Nevertheless, it was a good start for the third force.

■ Mortgage and treasury bonds

Bringing in the investor

Measured by bonds in circulation, the Danish mortgage bond market is almost twice as big as the treasury bond market, but turnover in trade with the rest of the world is dominated by treasury instruments. Trade with non-residents in government bonds is about DKr1,000bn a year, while trade in mortgage bonds is well under DKr100m a year.

Mortgage bonds carry a risk premium and yields which are about a percentage point higher than yields on government issue, though in the more than 200 years of the Danish mortgage bond market there has never been a default.

The drawback, explains Mr Lars Rohde, co-general manager of Realkredit Danmark, one of the two biggest mortgage credit companies, is the structure of the mortgage bonds. They are annuities and they are callable. Investors abroad, who are unused to sizeable markets in mortgage bonds, want instruments which have the same characteristics as treasury bonds: non-callable bullets.

The Danish finance industry is trying to stimulate foreign interest in mortgage bonds by introducing new instruments, which are more to the liking of the international investing public. Last year Unidanmark introduced a collateralised mortgage bond (CMB) series. The bonds are based on tradi*tional mortgage bonds*, but perform very much like bullets. There is, however, still a callable element in them.

Realkredit Danmark has developed a new instrument which, it claims, is a 10-year bullet pure and simple with no callable element. It will be introduced this autumn. RD has taken the unusual step for a European finance company of applying for a patent on the analytical and numerical basis of the new product.

RD's new bullet makes a complete separation between the loans to the householder, or other mortgagee, and the bond sold to the investor. The loan to the mortgagee, named RD Flexloan, is designed as a supplement to a mortgage financed in the normal way through traditional bonds. The Flexloan can be taken for 10, 20 or 30 years, but part of it will be refinanced, either continually or at five-year intervals.

The customer can choose a quarterly or monthly repayment schedule. RD will issue bullets with maturities of one to 10 years, a single series for each year. Interest will be paid once a year.

In every respect except the mortgage basis, the bonds will be identical in structure with the kingdom's bullet loans. The loan structure and repayments schedule will typically mean, says Mr Rohde, that householders will pay a rate of interest on the loan that is a percentage point lower than on traditional mortgage loans. That should bring them in.

■ Stock Exchange reform

Surviving in the free world

With its monopoly status removed, the exchange must offer competitive services

The legal monopoly which protected the Copenhagen Stock Exchange was ended on January 1 this year, and on May 1 the CSE will start life as a private company.

With its monopoly status removed, the CSE will have to survive on its ability to offer competitive services, "and we shall survive; there's no doubt about that," says Mr Hans Ejvind Hansen, chairman of the new CSE, who has a long career in some of the most senior jobs in the finance services industry.

The reform of the CSE is a consequence of the EU's Investment Services Directive, which Denmark has been one of the first countries to implement fully through changes in domestic legislation. The privatised CSE will be owned by traders, with 60 per cent of the capital. Issuers and investor representatives will be the other shareholders.

The Danish Securities Centre, which has provided a paperless, electronic clearing and settlements system for bonds since 1982 (and for shares since 1986), may also be privatised, but a decision has not been taken yet. In principle, both institutions could face competition from new exchanges, though no domestic challengers have flagged any such intentions to date.

One result of the changes is that foreign securities houses can become remote members of the CSE, a development welcomed by the Danes. "In Denmark, we have no hesitation whatsoever about remote membership," says Mr Hansen. "We want remote members. It will help to strengthen trade in the most liquid securities, shares as well as bonds. We shall actively seek to attract remote members."

The CSE – and any competing market places which are established – will be under the supervisory control of a new Securities Board, chaired by Mr Erik Hoffmeyer, governor of the central bank from 1965 to 1995. The board's secretariat will be provided by the Finance Industry Supervisory Authority.

The outlook for the Danish market varies in some degree with the type of securities. Denmark has a very big bond market, by far the largest of any country if measured on a per capita basis, which is usually ranked at ninth in the world by turnover. This reflects the 200-year-old Danish system of mortgage credit, by which property purchases have been (and still are) financed almost exclusively by bonds issued by mortgage credit institutions.

The market in government debt is relatively new. It developed in the 1970s when the first and second oil price shocks sent the state budget heavily into deficit. "For the large, liquid benchmark bonds, whether mortgage credit or treasury issue, we shall face competition from exchanges as well as from proprietary trading systems, and this will probably also be the case for the 10 most liquid equities," says Mr Hansen.

"To stay competitive, we shall have to ensure that we can compete through the efficiency of the system, through transparency and price," he says. The challenge will be especially tough if and when Emu Phase 3, with a common currency, is implemented.

Denmark has an opt-out from Phase 3 under the terms on which it ratified the Maastricht treaty, but it is widely expected that the state will nevertheless issue Eurobonds. As there will be little difference between these and other Euro treasury bonds, there will be no special incentive for trade them via the CSE.

Mr Hansen argues that it is important to keep as much trade in Copenhagen as possible, on the principle that "the elite generates breadth".

> Capital gains tax on listed shares has virtually killed the market for individual investment in equities

At the other end of the scale, there are 1,200 bonds series which are not liquid and in which, in some cases, trades may not take place for days or even weeks. Most of the 250 shares listed in Copenhagen are also weak on liquidity.

For these securities, the existence of a Danish market place is essential, and here Mr Hansen sees the job of the new CSE as being to improve liquidity and trading opportunities.

There are several stumbling blocks, reflecting both institutional and taxation problems. At the top of the market's hit list is a 0.5 per cent turnover tax on all equity sales carried out by Danish investors. "This is a major handicap to our development. If investors and traders can buy through exchanges where there is no tax, they have an easy choice to make," says Mr Hansen. "It is horrible that we should have to live with such a negative discrimination."

Mr Carsten Koch, the Social Democratic party's minister for taxation, told a meeting of the Association of Danish Shareholders this month that he did not completely rule out the suspension of this tax, but he did not make any promises, either.

There are other taxes which hinder the development of the market, of which the tax on capital gains when listed shares are sold, is one. Until 1993, there was no capital gains tax on shares held for over three years. Now, capital gains are taxed fully at income tax rates unless the total value of the shares held by a single person or a married couple is under DKr106,000. There is no deduction for losses on other shares in the portfolio.

This tax has virtually killed the market for individual investment in equities, and Mr Koch has no intention of changing it. However, the situation can be exaggerated. Investments made in equities through pension savings accounts, whether individual accounts administered by the banks or collectively through pension funds and life assurance companies, are not subject to the gains tax, and neither are they subject to another one of Denmark's killer taxes – the tax on real interest yields.

The latter tax, introduced in 1983, places a ceiling of 3 per cent on the after-inflation real yield which pension funds and other institutions may earn on securities investments; any yield in excess of a real 3 per cent goes to the exchequer.

As the equity investments in pension savings accounts are exempted, they are favoured.

Other problems hindering the development of a more lively equities market are the fact there are very few large companies, by international standards, listed on the CSE; that many of these companies are controlled by foundations holding stock with preferential voting rights, which means among other things that the companies are not exposed to hostile takeover bids; and that the market is dominated by institutional investors, which invest for the long haul and put the share trade indicator permanently on "hold".

The tax regime is partly responsible for the serious problems of the Copenhagen derivatives market, according to Mr Tyge Vorstrup Rasmussen, president of the Futop Clearing Centre. Turnover in the market was so low in 1995 that its commercial justification was in doubt. Turnover has improved this year, but not yet to a satisfactory level.

The turnover tax is one problem, but so is the way the real interest tax is administered. It applies to yields on derivatives, a factor in keeping the Danish institutions out of the market. Other factors are the conservatism of the institutions, which was not helped by the Barings collapse.

In the meantime, Mr Rasmussen plans to involve the domestic institutions to generate a larger market. "We need them to get liquidity, and we need more liquidity to make the market attractive to foreigners," he says.

Copenhagen's old stock exchange — Tony Andrews

■ The big insurers

Measure of independence

The two main companies differ, but they have important things in common

When Codan, the insurance company controlled by the UK's Sun Alliance, acquired Hafnia, then the country's second largest insurer, in 1993, it took on board a company which was twice its own size.

"It was a big mouthful," says Mr Peter Zobel, the chief executive, whose family founded the company. He is the third generation to be in control.

For a year or so, Codan was the country's biggest accident insurance company, but it was knocked from that perch last year when Tryg acquired most of the assets of Baltica (changing its name to Tryg-Baltica) from Den Danske Bank. Tryg-Baltica's accident insurance premium income last year was DKr5.05bn, compared with Codan's DKr3.7bn; total group premium income was DKr8.1bn in Tryg to DKr6.4bn at Codan.

The rivals have two things in common. First, the present structure of both is the result of the collapse of the country's two biggest insurers in 1991-93, Baltica and Hafnia (in each case, the collapse was caused by speculative ventures by the respective holding companies).

Secondly, the two have so far remained aloof from alliances with banks, although Codan has its own banking subsidiary. In Codan's case, says Mr Zobel, "we have not received any proposals, and we are perhaps not a suitable partner because of our foreign ownership".

Instead, however, Codan is putting the finishing touches to an agreement with Fokus, Norway's fourth-ranking bank, to sell Codan accident and life policies through the Fokus branch network in Norway. "If this is a success, we shall consider similar arrangements in the other Scandinavian countries," says Mr Zobel.

Before taking over Hafnia, Codan was the smaller partner, but consistently the most profitable of the larger Danish insurers. This record did not survive the acquisition: between 1992 and 1993, Codan's combined ratio in the Danish accident insurance company (costs plus indemnities) soared from 105 to 132. The past three years have been devoted to sanitising the Hafnia portfolio, "a long slow process," says Mr Zobel, but it is beginning to show results.

The combined ratio was down to 114 in 1995 and the direct returns on insurance business (the insurance technical result) as a percentage of premium income was reduced from a negative 20 per cent in 1993 to a still negative 6 per cent last year. "We have got control of things now, although the result is still not satisfactory," says Mr Zobel. He aims to reduce the combined ratio to 102, which means that both costs and indemnities have to come down considerably from their present levels.

> They have remained aloof from alliances with banks

Mr Zobel is sanguine about Codan's future as a company which does not have an alliance with a large bank. "It's a challenge," he says, but he does not believe that the advantages are all on the side of the insurance companies which do have alliances.

Curiously enough, Danica, with the support of its owner, Den Danske Bank, has adopted a business strategy which suggests that it may agree with Mr Zobel, though it perplexes some of Danske's competitors. Baltica landed in Danske's lap in 1992-93, when Danske was the only financial services company with the strength to prevent Baltica from going bust. Danica was Baltica's life and pension business.

Last year Danske sold off the bulk of Baltica's accident business to Tryg, leaving Danica with the accident business of Danica's life and pension customers. Danica and Danske have agreed, however, that Danica should function independently of the bank.

Danica does not market its policies through Danske's branches, with the exception of company pension policies. "We are in competition with Danske's own insurance subsidiaries, Danske Phoenix, and Danske Life, and our own bank, Danica Bank, is a full-service bank in competition with Danske," says Mr Erik Bonnerup, Danica's chief executive.

"We have our own sales and our own products. We are quite independent and we think that it is best if we each sell through our own channels. As a group, this means we do business through two independent channels and in the end we think this will be to our advantage," says Mr Bonnerup.

Codan's position is, of course, different, but Mr Zobel thinks the banks' advantage as a sales canal will decline because the advance of electronic banking will gradually reduce the number of branches and weaken the importance of face-to-face contacts. He thinks that customers will think twice about putting all their eggs in one basket. They need independent advice and "will realise that it is best to have your insurance with an insurance company and your overdraft with a bank, and not get the two mixed up".

But the development of universal banks makes it all the more important for independent groups such as Codan to develop their own distribution channels and customer services, he emphasises. Direct marketing by tele-marketing, television advertising, and a 24-hour telephone service for accident insurance customers are areas in which Codan is making its main efforts.

■ Mortgage credit institutions

Unravelling the mystery

Though they have taken market share from the banks, the latter have now struck back

The Danish bond-issuing mortgage credit institutions have always been something of a mystery to the outside world. They are owned by their customers, the borrowers, as a kind of mutual fund, and the bonds they issue are not like any that international investors are used to dealing with.

Even the international rating agencies were so perplexed that they did not know how to rate the Danish mortgage institutions, though they are among the biggest mortgage issuing businesses in Europe. The groups are still owned by the borrowers, but the operational parts of the groups have been incorporated as joint stock companies. They are now rated for short-term credit purposes.

Soon, probably this year, they are hoping that they will receive ratings for long-term debt, which should make their bonds more attractive to international investors. Over the past few years the mortgage credit institutions have taken a significant market share from the banks, with the two biggest banks striking back by setting up their own mortgage credit subsidiaries.

Changes in legislation are the background to this development. Until the beginning of the 1990s, the mortgage credit institutions could provide only earmarked loans – to finance the purchase of a property or an improvement to a property.

Today, loans can be issued without regard to the purpose for which the money is to be used, although the loans must be safely secured in the property. The consequence of the change was that householders in large numbers have converted bank debt into mortgage credit debt, which is considerably cheaper.

The result shows up in central bank credit statistics. From the end of 1992 to the end of 1995, bank advances fell by about DKr60bn to DKr490bn. Mortgage credit lending increased by DKr75bn to DKr784bn.

Meanwhile, the two big mortgage institutions, Nykredit and Realkredit Danmark, are adopting completely different strategies in the new, freer world in which they find themselves. Nykredit is at the centre of a web of alliances with BG Bank and two other regional banks and with Topdanmark, the insurance company.

RD has no plans for similar alliances, according to Mr Lars Rohde, co-general manager. It has chosen to remain a specialist institution, doing what it knows best. "It is an interesting situation, in which on the one hand you have the universal banks offering every kind of service and on the other the specialist institutions, but we think the specialists will live on as long as they do what they do with sufficient talent," he says.

RD does not shun co-operation with banks. Indeed, that has been the traditional way in which private customers have made contact with the mortgage credit institutions, but it will be on a non-exclusive and ordinary commercial basis, says Mr Rohde.

In addition to its banking and insurance link-ups, Nykredit also has close co-operation with real estate agents through franchise arrangements with three real estate agency groups with a total of 250 outlets. This is another area in which RD has a different approach, counting on the quality and price of its products and customer service to bring in business.

Big Three Mortgage Credit companies' 1995 results

(figures in DKr bn)	Realkredit Danmark	Nykredit	BRFkredit
Profit from financial operations	3.74	4.67	1.23
Expenses	0.84	1.14	0.42
Provisions, depreciation	0.44	0.55	0.16
Operating profit	2.45	2.99	0.95
Net profit	2.15	1.96	0.65
Assets	334	398	133
– of which, mortgage loans	298	332	116